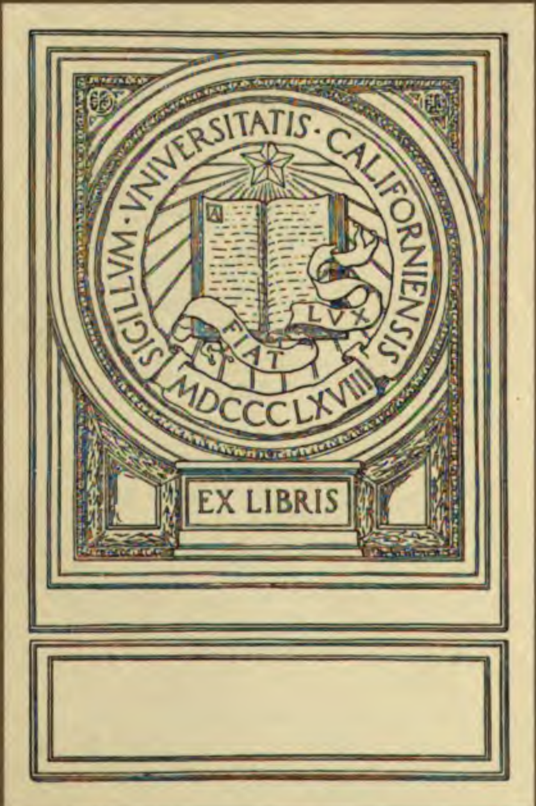
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Accountancy Problems

WITH SOLUTIONS

VOLUME II

By

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BUSINESS BOOK BUREAU
NEW YORK

Spreckels

Press of
Andrew H. Kellogg Co.
New York

PREFACE.

Like its predecessor, this volume is the result of contributions made by the author and a number of other accountants to the *Journal of Accountancy;* new matter, however, has been added to make it more complete.

The book is divided into four parts:

Part I presents selected American C. P. A. problems, as well as some of the problems set by the English and Canadian Societies, with full solutions and exhaustive comments. These problems cover the period from 1905 to 1911, inclusive; most of the work, however, is from examination papers set in the last three years. The problems cover a much wider variety of topics than those in Volume I. Among these topics are: Estate Accounting; Partnerships; Corporate Affairs; Fire Insurance; Promoters' Affairs; Comparative Balance Sheets; Brokers' Accounts; Amalgamations; Commission House Accounts; Realization Affairs; Club Accounts; Real Estate Companies; Manufacturing, Trading and Profit and Loss Statements; Bond Ledger Analyses; Closing Entries; Mine Accounts; Branch House Accounts; Preparation of Statements in Connection with Fire Losses; Cost Accounting; Determination of Bond Values and of Percentages of Turnover.

The author has endeavored to treat not only the principles, but the practical features of every problem either in the solution proper or in the comments.

Part II contains one hundred and eight selected questions and answers on theory of accounts, auditing and commercial law; the latter subject is the special feature of this part. It deals with matter relating exclusively to corporations, such as: Procedure in Organizing a Corporation; Conveyance of Corporate Property to Directors; Payment for Capital Stock; Rights and their Negotiability; Advantages of Corporate Form against

Partnership; Stockholders' Rights to Inspection of Books; Proxies; Liability of Directors in connection with Dividends; Filing of Reports; Formation of Joint Stock Companies; and many others.

As these questions are taken from various states, some of the answers are given both in accordance with the law of the state where the question originated, and also in accordance with the law of the State of New York.

In Part III are presented papers containing questions (without solutions) set by various State Boards of Accountancy on practical accounting, theory of accounts, auditing and commercial law, with the author's comments, in some instances, on the makeup of these papers. As in the first volume, the author gives here an introductory essay comparing and contrasting the standards that prevail in the different states, in order to show the progress of the profession.

To prevent the book from being too bulky, some questions that appear in Part I, with solutions, are not repeated in Part III, and only the balance of the paper is reproduced.

The selected problems, questions and complete examination papers are chosen from the following states: New York, New Jersey, Pennsylvania, Rhode Island, Massachusetts, Illinois, Michigan, Maryland, Ohio, Virginia, Florida and Washington.

Part IV contains a summary of the Federal Corporation Tax Law, dealing with the chief provisions of the law. A synopsis of decisions on questions relating to the special excise tax, issued by the Internal Revenue Department, is given here in order to assist those who make up the report required by the law.

For a clearer understanding of this law the full text of the act, as well as the latest rulings of the United States Supreme Court on the question of constitutionality, are reproduced in an appendix.

The author, as in his previous work, does not aim to present new theories, but has followed the prevailing standard of procedure and practice. Where differences of opinion are possible,

all arguments are brought forth either in the solution proper or in the comments. In some instances two solutions are given.

The author takes this opportunity to express his sincere appreciation to the following gentlemen for their valuable contributions to the *Journal of Accountancy*, of which he has availed himself: Mr. Arthur Wilmot, C. P. A., Mr. James F. Ruark, C. P. A., Mr. Gustave Jacobsson, M. A., Dr. J. J. Klein, C. P. A., Mr. Carl H. Nau, C. P. A., Mr. W. A. Vine, Mr. Norbert Newman, and Mr. A. H. Herschel; also to Mr. Max Meyer, C. P. A., and to Mr. Joseph Lichtenberg, B. C. S., who have assisted in the difficult task of proof-reading.

The author hopes that his readers will favor him with their frank criticisms and corrections. Whatever improvements over Volume I may be found in this volume are in a large measure due to their suggestions.

LEO GREENDLINGER.

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September, 1911.

PART I.

Problem 1.

(New York Examination, June, 1905.)

Three men, located respectively at New York, Chicago, and Minneapolis, conducted a business as partners. The partnership agreement recited that the New York partner was to receive a salary of $5,000 a year, the Chicago partner a salary of $3,000 a year and one-third of the profits of that branch, and the Minneapolis partner a salary of $2,000 a year and one-fourth of the profits of that branch. Six per cent. interest was to be allowed on the capital used in the business, $500,000, which was employed one-half at New York, one-third at Chicago and one-sixth at Minneapolis. Repairs and renewals were to be charged to plant, and a depreciation of six per cent, per annum was to be allowed. Interest on borrowed money was to be distributed according to the invested capital at each branch. Plant account at the beginning of the period showed as follows: New York, $250,000; Chicago, $200,000; Minneapolis, $150,000. Repairs and renewals paid during the year amounted to $25,000 at New York, $30,000 at Chicago, and $15,000 at Minneapolis; interest on borrowed money, $15,000. Subject to these items, the profits of the year amounted to $50,000 at New York, $35,000 at Chicago, and $25,000 at Minneapolis. Complete the profit and loss account for the year.

Solution

PROFIT AND LOSS ACCOUNT For

Accounts		New York	Chicago	Minneapolis	Total
To Depreciation of plant....		$16,500.00	$13,800.00	$9,900.00	$40,200.00
Partners' salaries........		5,000.00	3,000.00	2,000.00	10,000.00
Interest on capitals:					
6% on....	$250,000.00	15,000.00			15,000.00
6% on....	166,666.66		10,000.00		10,000.00
6% on....	8,333.34			5,000.00	5,000.00
	500,000.00				
To Interest on loans:					
50% on..	$15,000.00	7,500.00			7,500.00
33.33% on..	15,000.00		5,000.00		5,000.00
16.67% on..	15,000.00			2,500.00	2,500.00
100%					
Balance down..........		$6,000.00	$3,200.00	$5,600.00	$14,800.00
Being net profits........		$50,000.00	$35,000.00	$25,000.00	$110,000.00
Division of Profits.					
To Chicago partner:					
Profits, ⅓ of $3,200.00			$1,066.67		$1,066.67
Minneapolis partner:					
Profits, ¼ of $5,600.00				$1,400.00	1,400.00
New York branch capital, ⅓...............		$2,000.00	711.11	1,400.00	4,111.11
Chicago Branch capital, ⅓...............		2,000.00	711.11	1,400.00	4,111.11
Minneapolis Branch capital, ⅓...............		2,000.00	711.11	1,400.00	4,111.11
		$6,000.00	$3,200.00	$5,600.00	$14,800.00

the Year Ended December 31, 1904

	New York	Chicago	Minneapolis	Total
By profits.................	$50,000.00	$35,000.00	$25,000.00	$110,000.00
	$50,000.00	$35,000.00	$25,000.00	$110,000.00
By net profits.............	$6,000.00	$3,200.00	$5,600.00	$14,800.00
	$6,000.00	$3,200.00	$5,600.00	$14,800.00

Problem 2.

(New York Examination, January, 1906.)

Fredericka Ward dies leaving one daughter, Doris, and two sons, Henry and Arthur, all of age, surviving her. Her will directs that after the discharge of all just claims on her estate there shall be placed in trust for Fredericka Winter, the child of her deceased sister, $50,000, the income of which is to be used for the child's support by the guardian appointed under the trust, and the principal to be paid over to her when she becomes of age. The remainder of the estate is to be divided equally among the testator's three children.

The estate consists of cash in a trust company, $12,500; bonds and mortgages on real estate, $250,000; registered municipal bonds, $90,000; household furniture appraised at $20,130; horses and carriages appraised at $3,000; clothing appraised at $2,000, and jewelry appraised at 7,400.

One of the aforesaid mortgages, $50,000 at 5%, is in arrears of interest for one year, and foreclosure proceedings are commenced by the executor, with the result that on an immediate settlement the estate realizes the principal and the interest so in arrears and the trust fund is paid over to the guardian of Fredericka Winter. The February and August semi-annual instalments of interest at 5% on the two remaining mortgages of $100,000 each and the January and July interest on the registered 4% bonds are all duly received, and the bonds are forthwith sold for $90,190. The executor then pays $30,000 to Doris, and $10,000 each to Henry and Walter respectively, on account of their interests. Doris takes, as a part of her legacy, household furniture $5,000, clothing $900, and all the jewelry at the appraised valuation. Each of the sons takes as part of his legacy one of the remaining bonds and mortgages.

On the sale of the remaining effects the furniture realizes $15,000, the clothing $1,000, and the horses and carriages $3,200. There is also received from the trust company for interest on deposit, $350. The executor expended for probate $150, funeral $600, monument $1,000, tax on personal estate $350, counsel fees $1,500, fire insurance $32, and sundry claims against the estate $7,201. The allowance for executor's fees was fixed by the will at $2,500.

Prepare a summary accounting showing the cash in hands of executor and the amount payable to each of the heirs.

Solution.

SUMMARY ACCOUNTING STATEMENT OF THE EXECUTOR OF FREDERICKA WARD.

I charge myself with

Amount of inventory of personal property, viz.:

Cash in Trust Company............	$12,500.00
Bonds and mortgages on real estate.	250,000.00
Registered municipal bonds.........	90,000.00

Household furniture		20,130.00		
Horses and carriages		3,000.00		
Clothing		2,000.00		
Jewelry		7,400.00		
			$385,030.00	
Amount of Increase, viz.:				
Interest on bonds and mortgages		$12,500.00		
Interest on municipal bonds		3,600.00		
Sale of municipal bonds		190.00		
Sale of horses and carriages		200.00		
Interest on deposits at Trust Company		350.00		
			16,840.00	
				$401,870.00
I credit myself with				
Amount of testamentary expenses, viz.:				
Probate of will		$150.00		
Funeral expenses		600.00		
Monument		1,000.00		
			$1,750.00	
Amount of miscellaneous payments, viz.:				
Taxes on personal estate		$350.00		
Counsel fees		1,500.00		
Fire insurance		32.00		
Sundry claims against the estate		7,201.00		
			9,081.00	
Amount of decreases in value of assets, viz.:				
Household furniture		$130.00		
Clothing		100.00		
			230.00	
Advances to legatees in cash and distributed assets, viz.:				
Doris Ward		$43,300.00		
Cash	$30,000.00			
Clothing	900.00			
Furniture	5,000.00			
Jewelry	7,400.00			
Arthur Ward		110,000.00		
Cash	$10,000.00			
Bond and Mortgage	100,000.00			
Henry Ward		110,000.00		
Cash	$10,000.00			
Bond and Mortgage	100,000.00			

Fredericka Winter:				
Amount placed in trust		50,000.00		
			$313,300.00	
Total Credits				$324,363.00
Balance				$77,507.00
Cash Balance available for legatees				2,500.00
				$75,007.00

STATEMENT SHOWING AMOUNTS DUE BENEFICIARIES.

Total Value of Personal Property			$385,030.00	
Total Net Income:				
Increase		$16,840.00		
Less Decrease		230.00		
			16,610.00	
				$401,640.00
Disbursements, exclusive of advances				10,833.00
Balance				$390,807.00
Less:				
Executor's Commission			$2,500.00	
Specific Bequest to Fredericka Winter			50,000.00	
				52,500.00
Balance to be equally distributed				$338,307.00
Doris Ward is entitled to		$112,769.00		
Advances:				
Cash	$30,000.00			
Clothing	900.00			
Furniture	5,000.00			
Jewelry	7,400.00			
		43,300.00		
Balance due			$69,469.00	
Arthur Ward is entitled to		$112,769.00		
Advances:				
Cash	$10,000.00			
Bonds and Mortgages	100,000.00			
		110,000.00		
Balance due			2,769.00	
Henry Ward is entitled to		$112,769.00		
Advances:				
Cash	$10,000.00			
Bonds and Mortgages	100,000.00			
		110,000.00		
Balance due			2,769.00	
				$75,007.00

Problem 3.

(New York Examination, January, 1907.)

A, B, C and D enter into partnership with a capital of $100,000.00. A invests $40,000.00, B $30,000.00, C $20,000.00 and D $10,000.00. They are to share profits or losses in the following proportions: A 35%, B 28%, C 22%, and D 15%. They are also to receive stipulated salaries chargeable to the business.

At the end of six months there is a loss of $8,000 and meantime the partners have drawn against prospective profits as follows: A, $400; B, $600; C, $600, and D, $400.

They dissolve partnership and agree to distribute proceeds of firm assets monthly as realized. C and D enter other business and A and B remain to wind up the firm's affairs, it being stipulated that from all moneys collected and paid over to C and D a commission of 5% is to be deducted and divided equally between A and B for their services in the winding up.

The realization and liquidation lasts four months and the transactions are as follows:

	Assets realized.	Liabilities liquidated.	Expenses and losses on realization exclusive of commissions.
First month	$30,190.00	$7,900.00	$400.00
Second month	50,300.00	6,100.00	750.00
Third month	20,010.00	3,800.00	340.00
Fourth month	9,500.00	2,200.00	110.00
	$110,000.00	$20,000.00	$1,600.00

Prepare partners' accounts showing the amount payable monthly to each one.

Solution.

		A's Capital		B's Capital		C's Capital		D's Capital	
Original investments:			$40,000 00		$30,000 00		$20,000 00		$10,000 00
Trading loss	$8,000 00								
A's share 35%		$2,800 00							
B's " 28%				$2,240 00					
C's " 22%						$1,760 00			
D's " 15%								$1,200 00	
Withdrawals	$2,000 00								
A's capital		400 00							
B's "				600 00					
C's "						600 00			
D's "								400 00	
Balance at dissolution of partnership		36,800 00		27,160 00		17,640 00		8,400 00	
		$40,000 00	$40,000 00	$30,000 00	$30,000 00	$20,000 00	$20,000 00	$10,000 00	$10,000 00
Balance down			36,800 00		27,160 00		17,640 00		8,400 00
1st month's realization exp.	$400 00								
A's share 35%		140 00							
B's " 28%				112 00					
C's " 22%						88 00			
D's " 15%								60 00	
1st month's cash distribution	$21,890 00								
Add: D's new cash to equalize his capital	$ 1,816 50								
Amount to be distributed	$23,706 50								
between A, B and C after equalizing partners' capitals.									
Cash, A's 1st monthly installment		12,961 50							
" B's 1st " "				8,089 20					
" C's 1st " "						2,655 80			
" D's investment, to equalize his capital covering his deficit									1,816 50
2d month's realization expense	$750 00								
A's share 35%		262 50							
B's " 28%				210 00					
C's " 22%						165 00			
D's " 15%								112 50	

	A's Capital		B's Capital		C's Capital		D's Capital	
2d month's cash distribution $43,450 00								
Cash, A's 2d monthly installment, 35%	$15,207 50							
" B's 2d " " 28%			$12,166 00					
" C's 2d " " 22%					$9,559 00			
" D's 2d " " 15%							$6,517 50	
3rd month's realization expenses.................... $340 00								
A's share 35%....................	119 00							
B's " 28%....................			95 20					
C's " 22%....................					74 80			
D's " 15%....................							51 00	
3rd month's cash distribution.................. $15,870 00								
Cash, A's 3rd monthly installment, 35%	5,554 50							
" B's 3rd " " 28%			4,443 60					
" C's 3rd " " 22%					3,491 40			
" D's 3rd " " 15%							2,380 50	
4th month's realization expenses.................. $110 00								
A's share 35%....................	38 50							
B's " 28%....................			30 80					
C's " 22%....................					24 20			
D's " 15%....................							16 50	
4th month's cash distribution.................. $7,190 00								
Cash, A's 4th monthly installment, 35%	2,516 50							
" B's 4th " " 28%			2,013 20					
" C's 4th " " 22%					1,581 80			
" D's 4th " " 15%							1,078 50	
	$36,800 00	$36,800 00	$27,160 00	$27,160 00	$17,640 00	$17,640 00	$10,216 50	$10,216 50

Problem 4.

(Institute of Chartered Accountants of Ontario (Canada) at the Final May, 1907, Examination.)

The A. B. Co., Limited, wholesale traders also act as sales agents for a manufacturer.

From the following, arrange their trial balance at the 31st of December, 1906:

Capital Account, $25,000; Inventory Account (mdse.), $17,500; Unclaimed Dividends, $150; Cash, $475.80; Commissions, $10,341; Goodwill, $7,500; General Expenses, $2,142.76; Traveling Expenses, $2,260.84; Bad Debts Reserve, $1,250; Accounts Payable, $5,072.38; Advertising, $769.24; Salaries, $5,420; Purchases, $49,456.58; Purchases Discounts, $587.39; Sales, $56,900.17; Sales Discounts, $2,083.98; Taxes Account, $287.40; Balance on credit per Bank Pass Book, $1,000; Bills Payable, $7,021.41; Accounts Receivable $14,576.15; Furniture and Fixtures, $1,250; Land and Buildings, $6,000; Outstanding Checks, $1,397.40; Mortgage on Warehouse, $3,000; Inventory 31st of December, 1906, $15,000.

Prepare Trading Account; and assuming the expenses to have been incurred in the same proportion that gross profits and commissions bear to each other, make out a Profit and Loss Statement showing the result of the trading and agency operations separately.

Prepare a statement showing the percentage of Turnover and of Commissions that the total expenses represent, respectively.

Solution.

TRIAL BALANCE OF THE A. B. COMPANY, LIMITED, DECEMBER 31, 1906.

Land and buildings	$6,000.00	
Furniture and fixtures	1,250.00	
Inventory	17,500.00	
Accounts receivable	14,576.15	
Bank balance as per pass book	1,000.00	
Cash	475.80	
Goodwill	7,500.00	
Capital account		$25,000.00
Mortgage on land and buildings		3,000,00
Bills payable		7,024.41
Accounts payable		5,072.38
Outstanding checks		1,397.40
Unclaimed dividends		150.00
Reserve for bad debts		1,250.00
General expense	2,142.76	
Traveling expense	2,260.84	
Advertising	769.24	
Salaries	5,420.00	
Taxes	287.40	
Commissions		10,341.00
Purchases	49,456.58	
Purchases discount		587.39
Sales		56,900.17
Sales discount	2,083.98	
	$110,722.75	$110,722.75

STATEMENT OF PERCENTAGES.

Proportion of expense applicable to trading	$2,720.06
Proportion of expense applicable to agency	8,160.18
	$10,880.24

Total expense equal to 19.8485 + % of turnover amounting to $54,816.19
Total expense equal to 105.2142 + % of the commission amounting to $10,341.00

TRADING ACCOUNT OF THE A. B. COMPANY, LIMITED, DECEMBER 31st, 1906.

Dr.					Cr.
1906				1906	
Jan. 1—To merchandise inventory.		$17,500.00		Dec. 31—By sales for the year..................	$56,900.17
Dec. 31— Merchandise purchases for the year.........	$49,456.58			Deduct sales discount..............	2,083.98
Less purchases discount	587.39	48,869.19			
		$66,369.19			
Deduct merchandise inventory...........		15,000.00			
		$51,369.19			
To gross profit carried to profit and loss account..............		3,447.00			
		$54,816.19			$54,816.19

PROFIT AND LOSS ACCOUNT OF THE A. B. COMPANY, LIMITED, DECEMBER 31, 1906.

Dr. 1906	Trading	Agency	Cr. 1906	Trading	Agency
Dec. 31—To advertising...........	$192.31	$576.93	Dec. 31—By trading account.......	$3,447.00	
Traveling expenses....	565.21	1,695.63	Commissions..........		$10,341.00
Taxes...............	71.85	215.55			
Salaries..............	1,355.00	4,065.00			
General expenses.....	535.69	1,607.07			
Net profit and loss carried down..........	726.94	2,180.82			
	$3,447.00	$10,341.00		$3,447.00	$10,341.00

PROFIT AND LOSS ACCOUNT OF THE A. B. COMPANY, LIMITED, DECEMBER 31st, 1906.

(CONTINUED)

Dr.		Cr.	
1906 Dec. 31—To balance	$2,907.76	1906 Dec. 31—By profit and loss account—	
		Net profit from trading	$726.94
		Profit and loss account—	
		Net profit from agency	2,180.82
	$2,907.76		$2,907.76
		1907 Jan. 1—By balance	$2,907.76

THE A. B. COMPANY, LIMITED.

BALANCE SHEET, DECEMBER 31st, 1906.

Assets				Liabilities		
Land and Buildings		$6,000.00		Capital	$25,000.00	
Furniture and fixtures		1,250.00	$7,250.00	Mortgage on land and buildings	3,000.00	$28,000.00
Merchandise inventory		15,000.00		Outstanding Checks	$1,397.40	
Accounts receivable		14,576.15		Bills payable	7,024.41	
Cash in Bank	$1,000.00			Accounts payable	5,072.38	
Cash on hand	475.80	1,475.80	31,051.95	Unclaimed Dividends	150.00	
Goodwill			7,500.00			$13,644.19
				Reserve for Bad Debts		1,250.00
				Net profits (current year)		2,907.76
			$45,801.95			$45,801.95

Problem 5.

(Illinois Examination, May, 1907.)

As on January 1, 1890, a corporation is formed for the purpose of acquiring and conducting a cemetery, and starts business on that date with a capital stock of $100,000.00 paid for in cash. The company first purchases forty acres of land within easy access of a large city, paying for same at the rate of $1,000 per acre. It proceeds to expend considerable sums of money in the purchase and planting of trees and shrubs, laying out drives, and pathways, sodding, building of glass houses, etc. The policy of the company is to withhold the selling of burial lots until after January 1, 1900, so as to allow the trees and shrubs to become more fully grown and in the expectation that with the growth of the city their property will become more valuable. In the year 1900 the company commences selling burial lots, and all lots are sold under a special provision whereby the company agrees to apply fifty per cent. of all cash received on sales in the purchase of four per cent. bonds until a total of $150,000.00 of such bonds shall have been so purchased. The agreement further provides that after all the lots have been sold the company will wind up its affairs and the above bonds, amounting to $150,000.00, shall be given to the city, which shall use the income of such bonds for keeping up the cemetery. It is the custom of the company not to purchase bonds until after the close of each fiscal year, and after the total sales of that year have been determined.

March, 1905, the directors of the company find that while they believe the books to be in balance, no proper entries have been recorded showing the total cost of their investment, and that no entries have been made with respect to the fund of $150,000.00 from which said bonds are to be purchased. While cash dividends have been declared and paid, the directors are in ignorance of what their profits actually have been, and how much of the dividends so received have been out of their profits and how much in the nature of liquidating dividends, representing a return of their original investment. They, therefore, employ a certified public accountant to determine all these matters, and to make the necessary entries on their books, and render report to them. After determining the clerical accuracy of the books the accountant draws off the two trial balances given below, and from them prepares the necessary entries and obtains the information required by the directors.

TRIAL BALANCE

Debits:	Jan. 1, 1900.	Jan. 1, 1905.
Real Estate	$40,000.00	$40,000.00
Improvements	45,000.00	45,000.00
Bonds	....	125,000.00
Adminstration Expense	20,000.00	46,000.00
Upkeep of Cemetery	....	45,000.00

Dividends paid	....	130,000.00
Cash	7,000.00	40,800.00
	$112,000.00	$471,800.00

CREDITS:

Interest account representing interest at 4% on unexpended cash during development period	$12,000.00	$12,000.00
Bond interest account	....	9,800.00
Sale of lots	....	350,000.00
Capital Stock	100,000.00	100,000.00
	$112,000.00	$471,800.00

An inventory of their unsold lots as on January 1, 1905, shows that they have ten acres left unsold of equally desirable character with that already sold. Draw up entries, prepare profit and loss account for period and balance sheet as on January 1, 1905, in same manner as if you had been the accountant engaged. In any interest calculation use 4 per cent. simple interest.

Solution.

JOURNAL ENTRIES:

Operating	$382,500.00	
To Real Estate		$40,000.00
Improvements		45,000.00
Upkeep Expense		45,000.00
Gross profit (down)		252,500.00
Sales of lots	350,000.00	
Real Estate (Inventory)	32,500.00	
To Operating		382,500.00
Gross profit	252,500.00	
To Administrative Expense		46,000.00
Business profit (down)		206,500.00
Business profit	206,500.00	
Interest	12,000.00	
Bond Interest (Rec.)	9,800.00	
To net profit (down)		228,300.00
Net profit	228,300.00	
To Sinking Fund Reserve		120,000.00
Sinking Fund Reserve		30,000.00
Surplus (down)		78,300.00
Surplus	78,300.00	
Deficit	51,700.00	
To Dividend		$130,000.00

Income and Expenditure Account

Section I—Operating:

Year			Year		
1890	Real Estate (40 acres at $1000)...	$40,000.00	1902	Sales of lots........	$240,000.00
1890–1900	Improvements........	45,000.00	1903	" " "	110,000.00
1900–1905	Upkeep of Cemetery........	45,000.00			
		$130,000.00			
1905 Jan. 1	Deduct Inventory, (10 acres at $3,250)........	32,500.00			
	Cost of lots sold (30 acres at $3,250)	97,500.00			
	Gross profits (to Section II).......	252,500.00			
		$350,000.00			$350,000.00

Section II—Administration.

1890–1900	Administrative Expenses...	$20,000.00	Balance from Sec. I........	$252,500.00
1900–1905	" "	26,000.00		
	Net profit on cost (to Section III)	206,500.00		
		$252,500.00		$252,500.00

SECTION III—FINANCIAL.

	Total business profit (to Section IV)	$228,300.00	Balance from Section II	$206,500.00
			1890–1900 Interest at 4% on unexpended Cash during development	12,000.00
			1903 Dec. 31 Interest on $120,000 Bonds	4,800.00
			1904 Dec. 31 Interest on $125,000 Bonds	5,000.00
		$228,300.00		$228,300.00

SECTION IV—SINKING FUND RESERVES.

1902 Dec. 31	Reserved for purchase of Bonds (50% of sales)	$120,000.00	Balance from Sec. III	$228,300.00
1903 Dec. 31	Reserved for purchase of Bonds (up to $150,000.00)	30,000.00		
	Balance to Surplus % (Sec. V)	78,300.00		
		$228,300.00		$228,300.00

SECTION V—SURPLUS.

1900–1905	Dividends declared and paid interim (per Sec. VI)	$130,000.00	Net profit earned and available or dividends	$78,300.00
			Deficit Account; *excess* distribution of dividends, being $51,700 repayment of capital	51,700.00
		$130,000.00		$130,000.00

Section VI—Dividend.

1900-1905	Cash	$130,000.00	1900-1905	Dividends declared interim	$130,000.00

Cash Account.

1890			1890		
Jan. 1	Capital Stock paid in	$100,000.00	1900	Real Estate bought	$40,000.00
1890-1900	Interest on unexpired cash during development	12,000.00		Improvements	45,000.00
				Administrative expense	20,000.00
				Balance	7,000.00
		$112,000.00			$112,000.00
1900					
Jan. 1	Balance	$7,000.00			
1902	Sale of lots	240,000.00	1903	Sinking Fund Bonds	$120,000.00
1903	" " "	110,000.00	1904	" " "	5,000.00
1903	Interest on bonds	4,800.00	1900-1905	Upkeep of cemetery	45,000.00
1904	" " "	5,000.00		Administrative Expenses	26,000.00
				Dividends paid	130,000.00
				Sinking Fund (cash reserved for purchase of bonds)	25,000.00
				Balance on hand	15,800.00
		$366,800.00			$366,800.00

BALANCE SHEET (as at January 1, 1905).

Cash		$15,800.00	Capital Stock	$100,000.00
Sinking Fund—			Sinking Fund Reserve %	150,000.00
4% Bonds	$125,000.00			
Cash	25,000.00	150,000.00		
Real Estate ((10 acres at $325))		32,500.00		
Deficit		51,700.00		
Representing liquidating dividends, same being amount paid in excess of earnings.				
		$250,000.00		$250,000.00

Problem 6.

(Illinois Examination, December, 1907.)

At the close of the first year, after engaging in business, the ledger balances of an Illinois Fire Insurance Company may be assumed to be correctly as follows:

Losses adjusted and paid	$16,785.90	....
Losses adjusted, not paid	5,210.85	....
Premiums in hands of agents	7,892.54	....
Capital	....	$200,000.00
Surplus	....	100,000.00
Premiums	....	97,500.00
Interest	....	8,942.50
Commissions	26,847.25	......
Taxes	1,510.83	......
Salaries	7,428.10	......
General Expenses	16,582.72	......
Investments and Loans	290,150.69	......
Office Furniture	2,495.10	......
Stationery & Supplies (Inventory)	1,828.90	......
Accounts Receivable	16,825.95	......
Accounts Payable	....	3,180.75
Reserve for losses adjusted	....	5,210.85
Organization Expenses	1,822.03	......
Cash	19,453.24	......
	$414,834.10	$414,834.10

The Policy register shows:

	Policies Issued	Premiums Received
Expiring in 1 year	$1,300,000.00	$15,000.00
Expiring in 2 years	1,075,000.00	18,500.00
Expiring in 3 years	1,450,000.00	34,500.00
Expiring in 5 years	1,250,000.00	29,500.00
	$5,075,000.00	$97,500.00

The Illinois Statute reads:

"In estimating profits there shall be reserved therefrom a sum equal to the whole amount of unearned premiums or expired risks, and policies. The company may declare dividends not exceeding ten per cent. of its capital stock in any one year that shall have accumulated and be in possession of a fund in addition to the amount of its capital stock, and of such dividends and all actual outstanding liabilities equal to one-half of the amount of all premiums on risks not terminated at the time of making such dividend. A year is defined to mean a calendar year."

Determine the reserve required, and state what sum, if any is available for dividends without impairing the surplus shown in the ledger balances. Changes in relation to policies cancelled or settled for under claimed for losses may be ignored.

Solution.

Expire in	Policies issued	Policies in force end of year	Premiums Received	Earned	Not Earned
1 year...	$1,300,000.00	None	$15,000.00	$15,000.00	None
2 " ...	1,075,000.00	$537,500.00	18,500.00	9,250.00	$9,250.00
3 " ...	1,450,000.00	966,666.67	34,500.00	11,500.00	23,000.00
5 " ...	1,250,000.00	1,000,000.00	29,500.00	5,900.00	23,600.00
	$5,075,000.00	$2,504,166.67	$97,500.00	$41,650.00	$55,850.00

In arranging above I have assumed that all policies had run one year. This is not very probable in actual affairs but it may be taken as a basis for solution.

MEMORANDUM AS TO DIVIDENDS

(As per provision of Illinois law)

	Unearned Premiums		$55,850.00
Deduct:	Required Reserve 50%		27,925.00
	Available portion of above		$27,925.00
Deduct:	For current deficit	$3,598.43	
	For reserve for losses	5,210.85	
	Accounts Payable	3,180.75	11,990.03
Dividend which may be declared as against one half of unearned premiums			15,934.97

Which is .07967485% of Capital Stock

INCOME AND EXPENDITURE ACCOUNT.

SECTION I.

Commissions		$26,847.25	Premiums earned		$41,650.00
Salaries		7,428.10	Interest		8,942.50
Taxes		1,510.83	Balance to Section II		3,598.43
General Expenses		16,582.72	(Representing a deficiency for current period of $1,776.40)		
Organization Expenses		1,822.03	(Organization Expense charged off, $1,822.03)		
		$54,190.93			$54,190.93

SECTION II.

Balance (deficit) from Section I		$3,598.43	Total deficit—		
Claims for losses—			Excess of Expenses and losses over income		$25,595.18
Adjusted and paid	$16,785.90				
Adjusted, not paid	5,210.85	21,996.75			
		$25,595.18			$25,595.18

BALANCE SHEET

Cash		$19,453.24	Losses adjusted, unpaid		$5,210.85
Investments and Loans		290,150.69	Accounts Payable		3,180.75
Accounts Receivable		16,825.95	Unearned Premium Reserve—		
Due from Agents		7,892.54	Required (50%)	$2,792,500.00	
Office Furniture		2,495.10	Surplus thereof	2,792,500.00	55,850.00
Stationery and Supplies		1,828.90			
Deficit—			Capital		200,000.00
% current period	$1,776.40		Surplus		100,000.00
Org. Exp. charged off	1,822.03				
Losses	21,996.75	25,595.18			
		$364,241.60			$364,241.60

Problem 7.

(New York Examination, February, 1908.)

A corporation was formed with a capital stock of $500,000.00 (of which $200,000 is preferred and $300,000 is common stock), to acquire and consolidate three existing corporations designated as A., B., and C., and having the following status respectively:

	Book Accounts.	Liabilities.	Surplus.	Deficit.	Capital.
A.......	$171,000	$56,000	$15,000		$100,000
B.......	165,000	80,000		$5,000	90,000
C.......	108,000	47,000	6,0000		55,000
	$444,000	$183,000	$21,000	$5,000	$245,000

The several vendor companies contract with the promoter to sell their assets, excluding cash funds, as above stated and including goodwill, at the following prices respectively, viz.: A., $125,000; B., $100,000; C., $75,000, payable one-half in cash and one-half in preferred stock to be issued, therefor, by the new company, which is also to assume all outstanding obligations.

The promoter or vendor contracts with the new, or vendee company to acquire the several properties subject to the liabilities as stated and to provide an additional working capital of $100,000.00 cash, and to take in payment therefor the entire authorized stock of the new company, out of which the subscribing incorporators and directors will acquire their stock by purchase from the underwriters.

The common stock is undewritten by bankers at 80 per cent. with bonus of one share of preferred to each ten shares of common stock. The bankers are also to take an additional $10,000 of preferred stock at par, as part of their agreement.

(*a*) Frame opening entries and balance sheet of the vendee company, showing the costs respecitvely of assets, goodwill and organization expense on the assumption, that the terms of the several contracts, are known to all the parties concerned and form the basis of the financial values established.

(*b*) Frame closing entries of "A" company, showing cancellation of stock and distribution of proceeds of sale among stockholders.

(*c*) Show promoter's compensation or profit for effecting the consolidation.

Solution.

(*a*) THE ———— CORPORATION

INCORPORATED UNDER THE LAWS OF THE
STATE OF NEW YORK WITH AN
AUTHORIZED CAPITAL
OF
$500,000.00,
DIVIDED INTO 2,000 SHARES PREFERRED
AND 3,000 SHARES COMMON STOCK,
PAR VALUE $100 EACH.

CASH		$100,000.00	
working capital provided by the promoter, as per agreement.			
PLANT AND SUNDRY ASSETS		$444,000.00	
acquired from:			
Co. A.	$171,000.00		
Co. B.	165,000.00		
Co. C.	108,000.00		
BONUS—ORGANIZATION EXPENSE		$100,000.00	
being organization expenses allowed promoter as follows:			
For underwriting common stock 20% of $300,000	$60,000		
300 shares preferred stock @ $100	30,000		
promoter's compensation 100 shares preferred stock @ $100	10,000		
GOODWILL		$ 39,000.00	
representing excess payments for plants acquired, viz.:			
Co. A.	$10,000.00		
Co. B.	15,000.00		
Co. C.	14,000.00		
To Sundry Liabilities			$183,000.00
assumed by this Co., viz.:			
Co. A.	$56,000.00		
Co. B.	80,000.00		
Co. C.	47,000.00		
To Capital Stock			$500,000.00
2,000 shares of preferred stock 3,000 shares of common stock par value of each $100.00.			

BALANCE SHEET OF THE...........CO., AS ON...........19

ASSETS		LIABILITIES		
Cash....................	$100,000	Sundry liabilities.........		$183,000
Plant and Sundry assets...	444,000	Capital stock:		
Goodwill................	39,000	Preferred stock...	$200,000	
Organization expenses....	100,000	Common stock...	300,000	500,000
	$683,000			$683,000

(*b*) GOODWILL	$10,000.00	
To Surplus		$10,000.00
being the amount in excess of book values from sale of business to promoter		
SUNDRY LIABILITIES	$ 56,000.00	
Promoter	125,000.00	
To Assets		$171,000.00
Goodwill		10,000.00
To close above accounts on the books and charge promoter with selling price.		
PREFERRED STOCK	$62,500.00	
(of vendee Co., at par)		
CASH	62,500.00	
To Promoter		$125,000.00
To record settlement as made by promoter in accordance with agreement.		
SURPLUS	$ 25,000.00	
CAPITAL STOCK	100,000.00	
To Preferred Stock		$ 62,500.00
Cash		62,500.00
To close all accounts on books of this Co. and distribute preferred shares of the vendee Co. and the cash to the stockholders of this Co.		
(*c*) Transactions of promoter, assuming that they are all recorded as and when made or contracted for:		
Sundry Assets	$444,000.00	
Goodwill	39,000.00	
To Sundry Liabilities Assumed..........		$183,000.00
Co. A. (Purchasing Price)...........		125,000.00
Co. B. (Purchasing Price)..........		100,000.00
Co. C. (Purchasing Price)...........		75,000.00
showing the assets and liabilities bargained for and transferred to the promoter together with his liability as recorded in favor of the three Companies respectively; (he has not the cash with which to pay them until he has		

succeeded in getting the shares of the vendee company underwritten as stated in the question.)		
Vendee Company	$300,000.00	
being the net assets of the companies A., B., and C., transferred by the promoter to the new or vendee Co., $483,000 less $183,000.		
Liabilities	$183,000.00	
to close out the accounts of the various liabilities assumed from Companies A., B., and C., respectively, as per entry 1 above		
To Sundry Assets		$444,000.00
Goodwill		39,000.00
to close the accounts of the various assets taken over from Companies A., B., and C., respectively, as per entry 1 above.		
Preferred Stock	$200,000.00	
Common "	300,000.00	
To Vendee Company		$400,000.00
Profit and Loss.........................		100,000.00
For entire capital stock of vendee Co. ($500,000.00), turned over to promoter as per agreement, showing credit to profit and loss for gross amount allowed the promoter for effecting the consolidation.		
CASH	$10,000.00	
To Preferred Stock		$10,000.00
for sale to the bankers by the promoter of 100 shares preferred stock at par, as per agreement of underwriting.		
CASH	$240,000.00	
PROFIT AND LOSS	90,000.00	
To Common Stock..........................		$300,000.00
Preferred "		30,000.00
for sale to the bankers of the entire common stock @ 80%, difference being cost of underwriting; with additional bonus of 1 share of preferred stock to each 10 shares of common stock.		
VENDEE COMPANY	$100,000.00	
To Cash		$100,000.00
for payment to vendee company of the $100,000 cash working capital as per agreement, which completes contract with said company and wipes off existing liability in full.		

Dr.	PROMOTER'S PROFIT AND LOSS ACCOUNT.		Cr.
To expenses borne in effecting consolidation as follows:		By gross allowance by Vendee Company for the preliminary costs of consolidation of the various companies into the Vendee Company...	$100,000
Bankers charges for underwriting common stock..................	$90,000		
Balance (carried down) being net profit for services rendered.	10,000		
	$100,000		$100,000
		Balance.................	$10,000

The final accounts of the promoter are:

100 shares vendee Co.'s preferred stock @ par value.......................$10,000.00;

this being his net profit as per profit and loss account.............. $10,000.00

Problem 8.

(New York Examination, February, 1908.)

A, the senior partner of a firm, dies May 9, at the close of which day the trial balance of the copartnership ledger shows the following items:

Cash	$3,794	
Fixed assets	21,036	
Trade debtors	92,766	
Trade creditors		$93,206
Inventory, January 1	12,005	
Purchases	14,160	
Sales		19,658
Expenses	5,213	
Capital, A		20,000
Capital, B		10,000
Capital, C		5,000
Personal, A		2,310
Personal, B	750	
Personal, C	450	
	$150,174	$150,174

The inventory of mdse. stock May 9, is computed at $15,200, the unexpired insurance at $149, and accrued expenses at $207. The division of profits between partners is as follows: A, fifty-seven per cent.; B, twenty-eight per cent.; C, fifteen per cent. No interest is credited on capital, but interest is credited on A, personal $115, and charged to B, personal $6.25, and to C, personal $3.75.

The partnership agreement provides in case of A's death for the sale of A's interest to B and C on the execution of a bond by them in favor of A's estate, payable in five yearly installments, and stipulates that the assets are to be taken at book value, excepting one-half per cent. reserve for bad debts, in compliance with which provision a reserve of $500 is made.

A new firm of B, C, and D is formed, in which D invests $5,000 cash for a one-fourth interest in the business. B withdraws all in excess of $10,000 and C pays in a sum sufficient to bring his capital up to $5,000. The future profits are to be shared in the following stated proportions, vis.: B one-half, C one-fourth and D one-fourth. The new firm executes a purchase mortgage with bond as provided in favor of A's estate for $20,000, and pays over balance of his interest in cash.

Prepare the necessary accounts to give expression to the foregoing liquidation of the firm of A, B and C, and a balance sheet of the firm of B, C and D, as at the beginning of their enterprise.

Solution.

LIQUIDATION OF THE FIRM OF A, B AND C
May 9, 1907.

TRADING ACCOUNT

To inventory Jan. 1..	$12,005.00	By sales............	$19,658.00
Purchases........	14,160.00		
	26,165.00		
Less: inventory May 9.........	15,200.00		
Cost of mdse. sold	10,965.00		
Profit and loss, gross profit.....	8,693.00		
	$19,658.00		$19,658 00

INTEREST

To Partner A........	$115.00	By Partner B........	$6.25
		Partner C........	3.75
		Profit and loss....	105.00
	$115.00		$115.00

PROFIT AND LOSS

To Expenses.........	$5,213.00	By Trading account gross profit.....	$8,693.00
Expenses accrued:	207.00	Unexpired insurance...........	149.00
Interest..........	105.00		
Reserve for bad debts..........	500.00		
Net profit carried forward........	2,817.00		
	$8,842.00		$8,842 oc

PARTNER C.

To balance..........	$5,000.00	By capital, firm A, B and C.........	$4,968.80
		Cash invested....	31.20
	$5,000.00		$5,000.00
		Balance..........	$5,000.00

PARTNER D.

		By cash invested.....	$5,000.00

CASH ACCOUNT.

To balance, firm A, B and C.........	$3,794.00	By B, withdrawal....	32.51
C, additional investment.......	31.20	Estate of A......	4,030.69
D, investment....	5,000.00	Balance..........	4,762.00
	$8,825.20		$8,825.20
To balance	$4,762.00		

FIRM OF B, C AND D.

BALANCE SHEET.

MAY 10, 1907.

ASSETS:			LIABILITIES:		
Cash................		$4,762.00	Accounts payable....		$93,206.00
Accounts receivable Receivable.	$92,766		Accrued expenses....		207.00
Less: Reserve for bad debts	500	92,266.00	Bond and mortgage, payable to estate of A in five yearly installments.........		20,000.00
Merchandise..		15,200.00	Capital:		
Unexpired insurance....		149.00	Partner B..	$10,000	
Fixed assets..		21,036.00	Partner C..	5,000	
			Partner D..	5,000	
					20,000.00
		$133,413.00			$133,413.00

To profits allocated to partners, thus:		By net profit brought forward	$2,817.00
A 57 per cent	$1,605.69		
B 28 per cent	788.76		
C 15 per cent	422.55		
	$2,817.00		$2,817.00

PARTNER A.

To balance	$24,030.69	By investment	$20,000.00
		Personal account	2,310.00
		Interest	115.00
		Net profits, 57 per cent	1,605.69
	$24,030.69		$24,030.69
		By balance	$24,030.69

PARTNER B.

To personal account	$750.00	By investment	$10,000.00
Interest	6.25	Net profits, 28 per cent	788.76
Balance	$10,032.51		
	$10,788.76		$10,788.76
		Balance	$10,032.51

PARTNER C.

To personal account	$450.00	By investment	$5,000.00
Interest	3.75	Net profits, 15 per cent	422.55
Balance	4,968.80		
	$5,422.55		$5,422.55
		Balance	$4,968.80

AFFAIRS OF B, C AND D.

PARTNER B.

To cash withdrawn	$32.51	By capiatl, firm A, B and C	$10,032.51
Balance	$10,000.00		
	$10,032.51		$10,032.51
		Balance	$10,000.00

Problem 9.

(New York Examination, February, 1908.)

The bookkeeper of a manufacturing concern could produce only the following statement from its records on January 1st, 1907.

Manufacturing expenses	$4,622.89
Capital stock	10,000.00
Plant and equipment	17,500.00
Cash	832.14
Gross sales	8,469.10
First mortgage bonds (due Dec. 31, 1907)	15,000.00
Materials and supplies (inventory)	4,289.34
Notes payable	5,000.00
Accounts receivable	5,423.23
Accounts payable	2,436.28
Interest on bonds (7 months)	393.75
Interest on notes and accounts payable	282.40

On January 1st, 1907, the management is changed, and you are later retained as a public accountant to conduct an examination and prepare a balance sheet as of January 1st, 1908.

You find that during the preceding year the directors have subscribed in cash to $7,500 additional capital stock, and have retired all the notes and old accounts payable and that no interest was paid on these accounts for the year. You also find that the plant and equipment was revalued at $15,000, and 5% of this amount was charged off to provide for depreciation, while an additonal 2½% was ordered placed in Reserve Account to cover repairs and renewals, the entire 7½% being charged direct to Profit and Loss. The bonds outstanding fell due on December 31st, 1907, and were paid, principal and interest, in cash. An inventory of materials and supplies places their value at $2,328.19, the practice being to charge all purchases direct to Manufacturing Expenses and to credit back the amount of the inventory.

The accounts payable (all for material and non-interest bearing) amount to $546.28.

Of the accounts receivable, January 1st, 1907, $4,968.18 was collected and the balance charged off as uncollectible.

In addition to the material used from stock during the year, and the amount still due for material purchased, the manufacturing expenses were $3,720.52, all paid in cash, the total manufacturing expenses being 31% of the gross sales for the year ending January 1st, 1908.

Of these 91.3% were collected in cash, and the balance, all of which is considered good, remains on the books in accounts receivable.

Produce a comparative balance sheet of January 1, 1908-1907, and state the amount of gross sales for the year.

Solution.

CASH, 1906

Receipts			Expenditures		
Capital stock subscribed		$10,000.00	Plant and Equipment	$17,500.00	
Gross sales	$8,469.10		Deduct:		
Deduct % received.	5,423.23	3,045.87	Bonds issued	15,000.00	$2,500.00
			Mfg. labor		4,622.89
			Mfg. purchases	$12,527.12	
			Deduct % pay.. $2,436.28		
			Notes pay.. 5,000.00	7,436.28	5,090.84
			Balance on Hand		832.14
		$13,045.87			$13,045.87

MANUFACTURING EXPENSE ACCOUNT, 1906.

Materials	$12,527.12	Cost of Manufacturing carried to trading account	$12,860.67
Deduct:			
Dec. 31, inventory	4,289.34		
Materials used	$8,237.78		
Labor	4,622.89		
	$12,860.67		$12,860.76

TRADING ACCOUNT, 1906

Cost of goods manufactured	$12,860.67	Sales	$8,469.10
		Gross loss carried to profit and loss account	4,391.57
	$12,860.67		$12,860.67

PROFIT AND LOSS, 1906

Gross loss	$4,391.57	Net loss carried to deficiency account	$5,067.72
Interest on bonds (accrued)	393.75		
Interest on notes and accounts payable	282.40		
	$5,067.72		$5,067.72

DEFICIENCY ACCOUNT, 1906

1906 Dec. 31, net loss	$5,067.72	1907 Dec. 31, surplus accounts	$5,067.72

CASH, 1907

July 1—Balance		$832.14	Accounts payable	$2,436.28
Capital stock (increase)		7,500.00	Manufacturing expense	3,720.52
Accounts receivable		4,968.18	Notes payable	5,000.00
			Interest (on notes)	282.40
Sales	$20,090.16		Bonds payable	15,000.00
Deduct % receiv.	1,747.84	18,342.32	Interest on bonds	1,068.75
			BALANCE ON HAND	4,134.69
Being 91.3% collected		$31,164.64		$31,164.64

MANUFACTURING EXPENSE ACCOUNT, 1907

Material on hand	$4,289.34	Cost of manufacturing carried to trading account	$6,227.95
Material purchased	5,446.28		
	$4,835.62		
Deduct:			
Inventory Dec. 31, 1907	2,328.19		
Material used	$2,507.43		
Labor	3,720.52		
	$6,227.95		$6,227.95

TRADING ACCOUNT, 1907

Cost of goods manufactured	$6,227.95	Sales	$20,090.16
		$\left\{ \text{Being } \frac{100}{31} \times \frac{6227.95}{1} \right\}$	
Gross profit carried to profit and loss	$13,862.21		
	$20,090.16		$20,090.16

PROFIT AND LOSS, 1907

Plant revaluation	$2,500.00	Gross profit on trading	$13,862.21
Five per cent. written off	750.00		
Investment on bonds	675.00		
Business profit carried down	9,937.21		
	$13,862.21		$13,862.21

DISTRIBUTION SECTION, 1907

2 ½ per cent. reserve for plant	$375.00	Net business profit	$9,937.21
Bad debts	455.05		
Balance to surplus account	9,107.16		
	$9,937.21		$9,937.21

SURPLUS, 1907

Dec. 31, deficiency account	$5,067.72	Dec. 31, net profit	$9,107.16
BALANCE	4,039.44		
	$9,107.16		$9,107.16
		1908	
		Jan. 1—Balance	$4,039.44

COMPARATIVE BALANCE SHEET COVERING PERIOD FROM JANUARY 1, 1907 TO 1908

	Assets		Liabilities			
	1907	1908	1907	1908	Increase	Decrease
Cash	832.14	4,134.69			3,302.55	
Accounts receivable	5,423.23	1,747.84				$3,675.39
Inventory	4,289.34	2,328.19				1,961.15
Plant	17,500.00	14,250.00				3,250.00
Bonds payable			$15,000.00		15,000.00	
Notes payable			5,000.00		5,000.00	
Accounts payable			2,436.28	546.28	1,890.00	
Interest accrued			676.15		676.15	
Capital stock			10,000.00	17,500.00		7,500.00
Surplus deficiency account	5,067.72			4,039.44	Net Profit	9,107.16
Reserves				375.00		375.00
	$33,112.43	$22,460.72	$33,112.43	$22,460.72	$25,868.70	$25,868.70

Problem 10.

(New York Examination, February, 1908.)

On July 9th, 1907, Smash, Slump & Co., bankers, buy from the Atlantic Bridge Company its first 5% 50-year gold bonds dated July 1st, 1907, interest payable semi-annually, amounting to $10,000,000.00 at 90% and interest with a bonus of 50% in common stock of the Atlantic Bridge Company.

On the same date the bankers form a syndicate for one year to take the bonds at 92½% and interest, with the common stock as a bonus. They make no charge for expenses. The syndicate is formed as follows:

Jones & Co. take $1,750.000.00 as a participation.

Smith Brothers take $6,000,000.00 as a participation.

Rieders & Co. take $1,250,000.00 as a participation.

Smash, Slump & Co. take $1,000,000.00 as a participation.

On the same date the bankers pay the Atlantic Ocean Bridge Company the total amount due it for the $10,000,000.00 of bonds, and carry the syndicate, the members of which make no payments to the bankers.

On February 1st, 1908, $6,000,000.00 of bonds are sold on the Stock Exchange at an average price of 95% less ⅛% commission.

On April 1st, 1908, $1,000,000.00 of bonds are sold on the Stock Exchange at an average price of 94% less ⅛% commission.

Prepare statements as follows, showing the bankers' and participants' accounts as they should appear on the bankers' books at the close of the syndicate.

(*a*) Statement showing bankers' account for the purchase of the securities, including transfers to syndicate account and profit thereon.

(*b*) Statement of each of the syndicate's members' accounts as they should appear on the books of the bankers, July 9th, 1908.

(*c*) Statement showing the transactions and profit and loss on the banker's own participation account, assuming that the bonds are selling at 92½%.

In making up the statements no account need be taken of the coupons paid by the Atlantic Ocean Bridge Company, nor, of any interest charges by the bankers to the participants' accounts or to its own participation account, as it may be assumed that the cash received for the coupons by the bankers will be sufficient to reimburse them for their advances to July 9th, 1908.

Solution.

STATEMENT "A"—Bankers' Account, Showing Purchase of Securities, Including Transfers to Syndicate and Profit Thereon.

DR. ATLANTIC OCEAN BRIDGE COMPANY'S 50 YEAR BONDS (5%). CR.

Date	Par Value	Cost @.90	Profit on Transfer	Date	Sold to	Par Value	@ .925
1907 July 9	$10,000,000	$9,000,000	$250,000	1907 July 9	Jones & Co..........	$1,750,000	$1,618,750
					Smith Bros..........	6,000,000	5,550,000
					Rieder & Co.........	1,250,000	1,156,250
			Transferred to profit and loss account.		Smash, Slump & Co..	1,000,000	925,000
	$10,000,000	$9,000,000	$250,000			$10,000,000	$9,250,000

NOTE.—Common Stock bonus received and distributed as per statement "B."

Date	Explanation	Par Value	Mos.	Days	Amount
1907 July 9	Accrued...........	$10,000,000.00		9	$123.29
1908 July 9	Transfer to profit and loss account..				362,536.99
					$362,660.28
1908 July 9	Brought down......	$3,000,000.00		9	36.99

* Showing coupons, etc., collected "as it may be assumed that the cash them for their advances."

STATEMENT "B" Participants'

Date	Bonds Par Value	Bought @ .925	Accrued Interest	Total Debit	Debit Balance
1907 July 9	$1,750,000.00	$1,618,750.00	$21.58	$1,618,771.58	$1,618,771.58
1908 April 1					$622,584.08
July 9					$458,302.83
1907 July 9	$6,000,000.00	$5,550,000.00	$73.97	[$5,550,073.97	$5,550,073.97
1908 April 1					$2,134,573.97
July 9					$1,571,323.97
1907 July 9	$1,250,000.00	$1,156,250.00	$15.41	$1,156,265.41	$1,156,265.41
1908 April 1					$444,702.91
July 9					$327,359.16

Date	Bonds Par Value	Bought @ .925	Accrued Interest	Total Debit	Debit Balance
1907 July 9	$1,000,000.00	$925,000.00	$12.33	$925,012.33	$925,012.33
1908 April 1					$355,762.33
July 9					$261,887.33

5,000,000 COMMON STOCK (BONUS) OF THE ATLANTIC

JONES & CO.	SMITH BROTHERS
$875,000.00	$3,000,000.00

ACCOUNT* CR

Date	Explanation	Par Value	Mos.	Days	Amount
1907					
July 9	Jones & Company....	$1,750,000.00		9	$21.58
	Smith Bros.........	6,000,000.00		9	73.97
	Rieder & Company....	1,250,000.00		9	15.41
1908	Smash, Slump & Company.........	1,000,000.00		9	12.33
Jan. 1	Coupons............	10,000,000.00	6		250,000.00
Feb. 1	Accrued (sold).......	6,000,000.00	1		25,000.00
Apr. 1	Accrued (sold).......	1,000,000.00	3		12,500.00
July 1	Coupons............	3,000,000.00	6		75,000.00
July 9	Accrued (carried down)...........	3,000,000.00		9	36.99
					$362,660.28

eceived for the coupons by the bankers will be sufficient to reimburse

Accounts as they should appear on books of Bankers, July 9, 1908.

JONES AND COMPANY

Date	Bonds Par Value	Sold @	Gross	Less Com.	Net Proceeds	Par Value Bonds Unsold	Debit Balance Carried Down	Total
1908 Feb. 1	$1,050,000.00	95	$997,500	$1,312.50	$996,187.50	$700,000.00	$622,584.08	$1,618,771.5
April 1	175,000.00	94	164,500.00	218.75	164,281.25	525,000.00	458,302.83	622,584.0

SMITH BROTHERS

Date	Bonds Par Value	Sold @	Gross	Less Com.	Net Proceeds	Par Value Bonds Unsold	Debit Balance Carried Down	Total
1908 Feb. 1	$3,600,000.00	95	$3,420,000.00	$4,500.00	$3,415,500.00	$2,400,000.00	$2,134,573.97	$5,550,073.9
April 1	600,000.00	94	564,000.00	750.00	563,250.00	1,800,000.00	1,571,323.97	2,134,573.9

RIEDER & COMPANY

Date	Bonds Par Value	Sold @	Gross	Less Com.	Net Proceeds	Par Value Bonds Unsold	Debit Balance Carried Down	Total
1908 Feb. 1	$750,000.00	95	$712,500.00	$937.50	$711,562.50	$500,000.00	$444,702.91	$1,156,265.4
April 1	125,000.00	94	117,500.00	156.25	117,343.75	375,000.00	327,359.16	444,702.9

SMASH, SLUMP AND COMPANY

Date	Bonds Par Value	Sold @	Gross	Less Com.	Net Proceeds	Par Value Bonds Unsold	Debit Balance Carried Down	Total
1908 Feb. 1	$600,000.00	95	$570,000.00	$750.00	$569,250.00	$400,000.00	$355,762.33	$925,012.3
April 1	100,000.00	94	94,000.00	125.00	93,875.00	300,000.00	261,887.33	355,762.3

OCEAN BRIDGE CO., shared as follows among syndicate members:

RIEDER & CO.	SMASH, SLUMP & CO.
$625,000.00	$500,000.00

CASH ACCOUNT

Date					Date		
1907 July 9	Balance, amount advanced by bankers to syndicate		$9,000,123.29		1907 July 9	Atlantic Ocean Bridge Co., 50-year 5s	$9,000.000,00
1908						Bond interest (accrued)	123.29
Jan. 1	Bond interest—coupons		250,000.00		1908		
Feb. 1	Bond interest (accrued)		25,000.00		July 9	**Balance**	**$6,993,750.00**
Feb. 1	Sale of bonds	$996,187.50					
		3,415,500.00					
		711,562.50					
		569,250.00	5,692,500.00				
April 1	Sale of bonds	$164,281.25					
		563,250.00					
		117,343.75					
		93,875.00	938,750.00				
pril 1	Bond interest (accrued)		12,500.00				
July 1	Bond interest coupons		75,000.00				
			$15,993,873.29				$15,993,873.29
1908 July 9	Balance		$6,993,750.00				

STATEMENT "C"—Showing Banker's Own Participation Account with Inventory at Estimated Value.

SMASH, SLUMP AND COMPANY

Date	Explanation	Amount	Date	Explanation	Amount	Less Com.	Net
1908			1908				
July 9	Balance as per acct. under Statement "B"...	$261,887.33	July 9	Inventory of 300,000 par bonds @ 925 (estimated)....	$277,500.00	$375.00	$277,125.00
	Est. Propt. to P. and L...	15,237.67					
		$277,125.00					$277,125.00
July 9	Brought down......	$277,125.00					

BANKER'S PROFIT AND LOSS ACCOUNT

CREDIT

Date	Explanation	Earned	Estimated	Total
1907 July 9	Profit on transfer to Syndicate Statement "A"................................	$250,000.00		
1908 July 9	Bond interest net........................	362,536.99		
July 9	Estimated profit as per Statement "C"...		$15,237.67	
	Net profit earned........................	$61,253.99		
	Net profit earned and estimated..........			$627,774.66

CONDITION OF SYNDICATE AFFAIRS, ETC., AS PER BANKERS' BOOKS, JULY 9, 1908

Due from syndicate members, viz:		
Jones & Company.................	$458,302.83	
Smith Bros......................	1,571,323.97	
Rieder & Company................	327,359.16	
Smash, Slump & Company........	261,887.33	$2,618,873.29
Bond interest accrued July 1 to 9, 1908...............		36.90
Cash on hand to be repaid to bankers...............		6,993,750.09
		$9,612,660.28
Original advances made by Smash, Slump & Company to the syndicate	$9,000,123.29	
Bankers profit......................	612,536.99	$9,612,660.28

Problem 11.

(New York Examination, February, 1909.)

Senior partner, A, desires to retire from active business life. He has confidence in the ability and integrity of his partner, B, and both have a like regard for their sales manager, C, and their works manager, D, who have accumulated considerable means. In this situation B proposes to organize and to continue the business as a corporation, under his executive management, and to bring in sufficient capital from C, and D, in equal parts to pay off the principal of a real estate mortgage falling due at the end of the year, and sufficient capital from E, who is not connected with the business, to pay off the principal of the firm's notes payable. It is contemplated that E shall be made the treasurer of the corporation and that the five parties shall be the incorporators and constitute the first board of directors.

In the discussion between A, and B, it is agreed that the net worth of the business, exclusive of the good-will which has never been represented on the books, shall be converted into preferred stock of the corporation, and that the good-will shall be valued at one-half of the net worth and be converted into common stock; also that the cash capital contributed by C, D, and E, shall be paid to the firm, used by it for the purposes proposed by B, and converted into preferred stock for account of the three parties respectively. Thereupon A, proposes and agrees to surrender one fourth of his share of the common stock on the condition that it shall be distributed as follows: two parts to C, two parts to D, and one part to E.

These matters are all covered by written agreement of the five parties, in which agreement it is provided that A, and B, shall convey to the corporation all the property, business and good-will of their co-partnership, and that all the transactions and stock distributions provided for shall be carried through and be closed out in the books of the co-partnership, including the sum of $5,000, which shall be advanced to enable the incorporators to pay fully their subscriptions for 10 shares each of the common stock of the corporation.

A certified public accountant is engaged to make an examination of the books and accounts at the close of the year just approaching, to procure appraisement of the property and to close the books after providing therein for his compensation. On the completion of his work the books show the following conditions:

ASSETS.

Land	$50,000.00	
Buildings	200,000.00	
Machinery, etc.	100,000.00	
Finished products, product in process, materials and supplies	150,000.00	
Notes receivable	100,000.00	
Accounts receivable	100,000.00	
Cash	100,000.00	
Total assets		$800,000.00

LIABILITIES AND CAPITAL.

Real estate mortgage	$100,000.00	
Accrued interest on real estate mortgage	2,500.00	
Notes payable on demand	50,000.00	
Accrued interest on notes payable	1,000.00	
Accounts payable	25,000.00	
Accrued taxes	6,500.00	
Reserve provision for uncollectible accounts	15,000.00	
A's capital	400,000.00	
B's capital	200,000.00	
Total liabilities and capital		$800,000.00

Prepare cash book and journal entries to be placed on the books of the co-partnership to represent properly thereon the carrying out of all the matters provided for in the agreement of the five parties and to close said books.

Solution.

Dr.		Cash Book......................190			Cr.
Balance......................		$100,000.00	Mortgage on real estate.........$100,000.00		
C., as per agreement............	$50,000.00		Accrued interest on real estate mortgage...................	2,500.00	
D., as per agreement............	50,000.00		Notes payable................	50,000.00	
E., as per agreement............	50,000.00	150,000.00	Accrued interest on notes payable	1,000.00	
			Accrued taxes................	6,500.00	
			Advances to incorporators:		
			A., for 10 shares....$1,000.00		
			B., for 10 shares.... 1,000.00		
			C., for 10 shares..... 1,000.00		
			D., for 10 shares.... 1,000.00		
			E,. for 10 shares.... 1,000.00	5,000.00	
			Accountant's services	1,000.00	$166,000.00
			Balance................................		84,000.00
		$250,000.00			$250,000.00
Balance		$84,000.00			

JOURNAL OF THE FIRM OF A. & B.

GOOD-WILL ACCOUNT	$300,000.00	
representing one-half of the net worth of the firm as agreed upon by all parties.		
To A., capital account		$150,000.00
B., capital account		150,000.00
one-half of the total for each member of the firm.		
THE X. Y. COMPANY	$1,084,000.00	
for all assets and good-will transferred to the above mentioned Co., as per bill of sale dated......190..		
To Land		$50,000.00
Buildings		200,000.00
Machinery		100,000.00
Finished Product		150,000.00
Notes Receivable		100,000.00
Accounts Receivable		100,000.00
Cash		84,000.00
Goodwill		300,000.00
assets sold and transferred to the X. Y. Company as per agreement, dated......190..		
RESERVE FOR BAD DEBTS	$15,000.00	
Transferred to the X. Y. Company as an offset to accounts receivable that may turn out uncollectible.		
ACCOUNTS PAYABLE	$25,000.00	
assumed by the X. Y. Company.		
To X. Y. Company		$40,000.00
assumed by the latter.		
PREFERRED STOCK	$750,000.00	
7500 shares par value $100.00 each.		
COMMON STOCK	300,000.00	
3000 shares par value $100.00 each.		
To X. Y. Company		$1,050,000.00
in settlement for assets sold and transferred to them.		
A. CAPITAL ACCOUNT	$400,000.00	
for 4000 shares of preferred stock par value $100.00 each.		
B. CAPITAL ACCOUNT	200,000.00	
for 2000 shares of preferred stock par value $100.00 each.		
C. D. E. { 500 shares of preferred stock $100.00 par value to each of the above named for advances made	150,000.00	
To Preferred Stock		$750,000.00
Distribution as per agreement dated ......190..		

A. CAPITAL ACCOUNT .... for 1500 shares of common stock, par value $100.00 each.	$150,000.00	
B. CAPITAL ACCOUNT .... for 1500 shares of common stock, par value $100.00 each.	$150,000.00	
To Common Stock .... Distribution of stock between the partners of the firm.		$300,000.00
A. CAPITAL ACCOUNT .... for one-fourth of common stock to be donated as per agreement.	$37,500.00	
To Bonus Account .... to be distributed between C., D., and E. as per agreement dated......190..		$37,500.00
COMMON STOCK DONATED .... 375 shares donated by A as per agreement.	$37,500.00	
To A. Capital Account .... to close the latter account.		$37,500.00
BONUS ACCOUNT .... allocation as per agreement dated....190..	$37,500.00	
To C. .... for two-fifths of the stock donated by A.		$15,000.00
D. .... for two-fifths of the stock donated by A.		15,000.00
E. .... for one-fifth of the stock donated by A..		7,500.00
C.	$15,000.00	
D.	15,000.00	
E.	7,500.00	
To Common Stock Donated .... distribution as per agreement dated ......190..		$37,500.00
THE X. Y. COMPANY .... for expenses connected with the organization and incorporation.	$6,000.00	
To Advances to Incorporators		$5,000.00
Accountant's fees as per agreement..		1,000.00

B's Capital Account

$200,000.00	$200,000.00
150,000.00	150,000.00
$350,000.00	$350,000.00

E.,

$50,000.00	$50,000.00
7,500.00	7,500.00
$57,500.00	$57,500.00

Good-will

$300,000.00	$300,000.00

Common Stock

$300,000.00	$300,000.00

C.,

$50,000.00	$50,000.00
15,000.00	15,000.00
$65,000.00	$65,000.00

Advances to Incorporators

$5,000.00	$5,000,00

The X, Y, Company

$1,084,000.00	$40,000.00
6,000.00	1,050,000.00
$1,090,000.00	$1,090,000.00

Bonus Account

$37,500.00	$37,500.00

D.,

$50,000.00	$50,000.00
15,000.00	$15,000.00
$65,000.00	$65,000.00

Accountant's Services

$1,000.00	$1,000.00

Preferred Stock

$750,000.00	$750,000.00

Common Stock Donated

$37,500.00	$37,500.00

Land

$50,000.00	$50,000.00

Finished Product

$150,000.00	$150,000.00

Cash

$100,000.00	$166,000.00
150,000.00	84,000.00
$250,000.00	$250,000.00

Notes Payable

$50,000.00	$50,000.00

Accrued Taxes

$6,500.00	$6,500.00

Buildings

$200,000.00	$200,000.00

Notes Receivable

$100,000.00	$100,000.00

Real Estate Mortgage

$100,000.00	$100,000.00

Accrued Interest on Notes

$1,000.00	$1,000.00

Reserve for Bad Debts

$15,000.00	$15,000.00

Machinery

$100,000.00	$100,000.00

Accounts Receivable

$100,000.00	$100,000.00

Accrued Interest on Mortgage

$2,500.00	$2,500.00

Accounts Payable

$25,000.00	$25,000.00

A's Capital Account

$400,000.00	$400,000.00
150,000.00	150,000.00
37,500.00	37,500.00
$587,500.00	$587,500.00

Problem 12.

(Illinois Examination, May, 1909.)

By the partnership deed of a manufacturing firm, consisting of four members, A, B, C, and D, it was provided that in the event of the death of any partner before the expiration of the partnership by effluxion of time, on December 31, 1911, there should be paid to the legal representatives of the deceased the amount appearing to his credit on December 31, next preceding the death, together with interest thereon at 5 per cent. per annum to December 31, following the decease corresponding to the number of days that he lived during it, calculated after the rate of the average of his share for the last three completed years, together with interest on such share from the date of death to the end of the year.

The four partners shared profits equally, and each took interest on his capital at 5 per cent. per annum, but no interest was charged on the drawing, for each drew at the end of every month an equal sum in anticipation of profits.

The surviving partners were to share the profits equally. C died on June 30, 1905. The profits of the three immediately preceding years had been respectively $70,000.00, $78,000.00 and $63,500.00. The proportion payable in respect of a deceased partner's interest and profits it was stipulated by the deed of partnership should be treated as a trade expense of the year in which he died.

With the aid of the following trial balance of December 31, 1905, taken out before interest, depreciation, and an amount in lieu of factory rent have been charged, prepare manufacturing and profit and loss accounts for 1905, showing the various items in their proper divisions, and allowing $250.00 for depreciation of office furniture and fixtures, for Plant and Machinery $2,500.00, and 5 per cent. on the amount of the real estate (as appearing in the trial balance) for factory rent. Also construct a balance sheet, showing what was due to the deceased's estate, and what capital stood to the credit of each of the surviving partners.

The inventory at December 31, 1905, was $125,000.00. Bills receivable to the amount of $1,000.00, falling due after December 31, 1905, had been discounted.

TRIAL BALANCE, DECEMBER 31, 1905

A, Capital account		$120,000.00
B, Capital account		110,000.00
C, Capital account		100,000.00
D, Capital account		90,000.00
A, Drawing account	$12,000.00	
B, Drawing account	12,000.00	
C, Drawing account	5,000.00	
D, Drawing account	12,000.00	
Inventory, December 31, 1904	100,000.00	
Purchases during the year after crediting Bought returns	1,775,000.00	
Factory wages and salaries	250,000.00	
Balance of Discount received and allowed		20,000.00
Sales during the year, after debiting Sold returns		2,110,000.00
Cash on hand and at bank	29,500.00	
Bad debts	16,000.00	
Bills receivable	15,000.00	
Office salaries	9,000.00	
General office expenses	2,500.00	
Accounts receivable	414,000.00	
Traveling expenses	10,000.00	
Taxes factory	1,000.00	
Rent and taxes, office	2,000.00	
Real estate	60,000.00	
Plant and machinery	15,000.00	
Office furniture and fixtures	2,500.00	
Bills payable		50,000.00
Accounts payable		150,000.00
Interest and bank discount paid	7,500.00	
	$2,750,000.00	$2,750,000.00

Solution.

Manufacturing and Trading Account
December 31, 1905.

Inventory, Dec. 31, 1904......		$100,000		Net sales..................................	$2,110,000
Purchases, to................		1,775,000			
		$1,875,000			
Less:					
Stock on hand, Dec. 31, 1905		125,000	$1,750,000		
Factory wages and salaries....			250,000		
Factory expenses............					
Factory taxes...............	$1,000				
Depreciation of plant and machinery..................	2,500				
Factory rent, 5% on Real Estate $60,000............	3,000		6,500		
Manufacturing cost of mdse. sold......................			$2,006,500		
Gross profits...			103,500		
			$2,110,000		$2,110,000

Profit and Loss Account

Traveling expenses		$10,000.00			Gross Profits, transferred from mfg. and trading account	$103,500.00
Office salaries		9,000.00			Factory rent	3,000.00
General office expenses		2,500.00				
Office rent and taxes		2,000.00				
Depreciation of office furniture and fixtures		250.00				
Bad debts		16,000.00				
Total general and administrative expenses			$39,750.00			
Balance down being profits			66,750.00	$106,500.00		$106,500.00
				$106,500.00		
Interest on borrowed money		$7,500.00		$7,500.00	Balance down	$66,750.00
C's Executors:					Balance of discounts received and allowed	20,000.00
Interest at 5% on Capital share of profits	$5,000.00					
$\frac{181}{365}$ of $17,625.00	8,740.00					
Interest on share of profits 184 days or $8,740.00 @ 5% P. A.	223.74					
		13,963.74		13,963.74		
Interest on Partners' Capital:						
A's share	6,000.00					
B's share	5,500.00					
D's share	4,500.00			16,000.00		
				$37,463.74		
Net Profits:						
A, 1/3	$16,428.75					
B, 1/3	16,428.75					
D, 1/3	16,428.76			49,286.26		
				$86,750.00		$86,750.00

NOTE.—The total profits for the three preceding years amounted to $211,500 ÷ 3 = $70,500. Average for one year. One-fourth of this is $17,625, C's share for one year; C lived 181 days of the year 1905, hence $\frac{181}{365} \times \frac{17625}{1}$ = $8,740 his share of the profits per agreement, plus interest for 184 days, C 5% P. A. on $8,740.00

BALANCE SHEET.

As on December 31, 1905.

Assets.

Current Assets.			
Cash on hand and at bank		$29,500.00	
Accounts receivable		414,000.00	
Bills receivable	$16,000.00		
Less: Bills under discount	1,000.00		
		15,000.00	
Stock in trade		125,000.00	
Total			$583,500.00
Fixed Assets.			
Office furniture and fixtures	$2,500.00		
Less: 10% depreciation	250.00		
		$2,250.00	
Plant and machinery	$15,000.00		
Less: 16.66% depreciation	2,500.00		
		12,500.00	
Real Estate		60,000.00	
Total			74,750.00
			$658,250.00

Liabilities.

Current Liabilities.			
Accounts payable		$50,000.00	
Bills payable		150,000.00	
			$200,000.00
C's Executors.			
Capital, Dec. 31, 1905	$100,000.00		
5% interest	5,000.00		
Share of profits	8,740.00		
5% interest on profits	223.74		
	$113,963.74		
Less: drawings	5,000.00		
			$108,963.74
Capitals.			
A's investment, Dec. 31, 1905	$120,000.00		
5% interest	6,000.00		
1-3 profits	16,428.75		
	$142,428.75		
Less: drawings	12,000.00		
			130,428.75
B's investment, Dec. 31, 1905	$100,000.00		
5% interest	5,500.00		
1-3 profits	16,428.75		
	$131,928.75		
Less: drawings	12,000.00		
			119,928.75
D's investment, Dec. 31, 1905	$90,000.00		
5% interest	4,500.00		
1-3 profits	16,428.76		
	$110,928.76		
Less: drawings	12,000.00		
			98,928.76
			$658,250.00

Problem 13.

(Illinois Examination, May, 1909.)

Two professional firms, consisting of two partners each, agree to amalgamate. Jones and Robinson have accounts receivable, $12,500.00, and other assets taken as net, $1,250.00. Sikes and Wilson have accounts receivable, $11,000.00, and other assets net, $1,000.00, each firm bringing $2,500.00 in cash and discharging their own liabilities, with an arrangement that the partners of each firm shall have a preferential allowance of 15 per cent. on professional fees arising from the connections of each firm.

At the end of twelve months the earnings were $49,500.00, of which $19,000.00 came from Jones and Robinson's introduction, $23,000.00 from Sikes and Wilson's and the rest from neutral ground. The accounts receivable of Jones and Robinson were realized at an average loss of 6 per cent, those of Sikes and Wilson at 5 per cent. The expenses were $16,725.00. As at the end of the year, make out the Realization Account of each firm, the Profit and Loss Account of the amalgamated firm, and the Capital Accounts of each partner, allowing interest on the net assets and cash brought in at 5 per cent per annum, but none on the Accounts Receivable. The drawings have been: Jones, $5,000.00; Robinson, $3,250.00; Sikes, $5,500.00; Wilson, $3,500.00, without interest.

Profits are divided as follows: Jones and Sikes, three-tenths each; Robinson and Wilson, two-tenths each. The same proportions govern the divisions of assets brought in and the Preferential Allowances.

Solution.

Jones and Robinson's Realization Account

Assets to be realized			*Assets realized*		
To estimated value of assets:			By cash proceeds of realization		$13,000
Accounts receivable	$12,500		By cash brought in		2,500
Other assets	1,250				$15,500
Cash	2,500				
	$16,250				
To Jones, 3/5 share	$9,750		By loss on realization		750
To Robinson, 2/5 share	6,500	$16,250	By Jones, 3/5 share	$450	
			By Robinson, 3/5 share	300	
		$16,250			$16,250

Sikes and Wilson's Realization Account

Assets to be realized			*Assets realized*		
To estimated value of assets:			By cash proceeds of realization................		$11,450
Account receivable............	$11,000		By cash brought in......		2,500
Other assets......	1,000				$13,950
Cash............	2,500				
	$14,500				
To Sikes, 3/5 share...	$8,700		By loss on realization....		550
To Wilson, 2/5 share.	5,800	$14,500	Sikes, 3/5 share....	$330	
			Wilson, 2/5 share...	220	
		$14,500			$14,500

Jones' Capital Account

To drawings............	$5,000.00	By 3/5 share of Jones and Robinsons' realization..............	$9,750.00
To 3/5 loss on realization	450.00	By 3/5 share of preferential allowances....	1,710.00
To balance down.......	13,956.25	By 3/5 share of interest.	112.50
		By 6/10 share of net profits	7,833.75
	$19,406.25		$19,406.25
		By balance...........	$13,956.25

Robinson's Capital Account

To drawings...........	$3,250.00	By 2/5 share of Jones and Robinson's realization..............	$6,500.00
To 2/5 loss on realization	300.00	By 2/5 share of preferential allowances....	1,140.00
To balance down.......	9,387.50	By 2/5 share of interest..	75.00
		To 4/10 share of net profits.................	5,222.50
	$12,937.50		$12,937.50
		By balance...........	$9,387.50

Sikes' Capital Account

To drawings...........	$5,500.00	By 3/5 share of Sikes and Wilson's realization................	8,700.00
To 3/5 share of loss on realization...........	330.00	By 3/5 share of preferential allowances....	2,070.00
To balance down.......	12,878.75	By 3/5 share of interest.	105.00
		By 6/10 share of net profits.................	7,833.75
	$18,708.75		$18,708.75
		By balance...........	$12,878.75

Wilson's Capital Account

To drawings...........	$3,500.00	By 2/5 share of Sikes and Wilson's realization................	$5,800.00
To 2/5 share of loss on realization...........	220.00	By 2/5 share of preferential allowances....	70.00
To balance down.......	8,752.50	By 2/5 share of interest.	1,380.00
		By 4/10 share of net profits................	5,222.50
	$12,472.50		$12,472.50
		By balance...........	$8,752.50

Problem 14.

(New York Examination, June, 1909.)

A new corporation, "D," is formed to purchase and amalgamate the business of three corporations, "A," "B," and "C," carrying on the same class of business, at December 31st, 1908.

There are considerable differences between the capitals, the gross sales, the expenses and the net profits of the three corporations. The amount to be allotted to each in shares of the new corporation for its capital and good will is agreed to be referred to you.

Using your own figures, construct and give a profit and loss account for five years ended December 31st, 1908, and balance sheet, showing liabilities other than capital, at December 31st, 1908, for Corporations "A," "B," and "C," illustrating the foregoing particulars, and assume that Corporation "A" shows a larger profit on a smaller capital than either of the others.

Give the balance sheet of the new Corporation "D" as it will appear as the result of your Report, and state your reasons for the allotment you consider equitable.

Solution.

EXHIBIT "A"

BALANCE SHEETS

as on December 31, 1908

ASSETS	Corporation "A"	Corporation "B"	Corporation "C"
Real estate	$30,000.00	$50,000.00	$90,000.00
Merchandise	18,000.00	26,000.00	50,000.00
Notes receivable	15,000.00	9,000.00	15,000.00
Trade debtors	8,000.00	17,000.00	46,000.00
Cash	7,000.00	17,000.00	40,000.00
Totals	$78,000.00	$119,000.00	$241,000.00
LIABILITIES			
Capital stock	$50,000.00	$100,000.00	$200,000.00
Notes payable	6,000.00	5,000.00	11,000.00
Trade creditors	14,000.00	12,000.00	20,000.00
Surplus	8,000.00	2,000.00	10,000.00
Totals	$78,000.00	$119,000.00	$241,000.00

EXHIBIT "B"

Balance Sheet of Consolidated Corporation "D"

as on December 31, 1908

Assets		
Real estate, plant and equipment		$ 170,000.00
Stock in trade	$94,000.00	
Accounts receivable	71,000.00	
Notes receivable	39,000.00	
Cash	64,000.00	
		268,000.00
Good will		1,116,667.00
		$1,554,667.00

Liabilities		
Accounts payable	$ 46,000.00	
Notes payable	22,000.00	
		$ 68,000.00
Capital and Surplus		
Capital stock, paid up	$1,466,667.00	
Surplus	20,000.00	
		1,486,667.00
		$1,554,667.00

EXHIBIT "C"

Combined Profit and Loss Statement

from December 31, 1904, to December 31, 1908

	Corporation "A"				
Accounts	1904	1905	1906	1907	1908
Gross sales	$100,000	$121,000	$130,000	$128,000	$140,000
Cost of manufacture	55,000	80,000	82,000	81,000	90,000
Gross profits	45,000	41,000	48,000	47,000	50,000
Trading expenses	20,000	23,000	21,000	24,000	23,000
Net profits	25,000	18,000	27,000	23,000	27,000

	Corporation "B"				
Accounts	1904	1905	1906	1907	1908
Gross sales	$120,000	$125,000	$130,000	$100,000	$140,000
Cost of manufacture	80,000	90,000	85,000	60,000	92,000
Gross profits	40,000	35,000	45,000	40,000	48,000
Trading expenses	25,000	21,000	30,000	26,000	36,000
Net profits	15,000	14,000	15,000	14,000	12,000

	Corporation "C"				
Accounts	1904	1905	1906	1907	1908
Gross sales	$200,000	$250,000	$240,000	$195,000	$300,000
Cost of manufacture	110,000	125,000	120,000	100,000	170,000
Gross profits	90,000	125,000	120,000	95,000	130,000
Trading expenses	60,000	70,000	50,000	55,000	75,000
Net profits	30,000	55,000	70,000	40,000	55,000

EXHIBIT "D"

Statement Showing Proposed Basis for Consolidation

	Average Net Assets	Average Net Profits	Percentage Net Profits	Excess over 6%	Annual Good Will
Corporation "A"	$ 50,000	$24,000	48%	42%	$21,000
Corporation "B"	100,000	14,000	14%	8%	8,000
Corporation "C"	200,000	50,000	25%	19%	38,000
Totals	$350,000	$88,000			$67,000

EXHIBIT "E"

Distribution of Capital Stock

On basis proposed under Exhibit "D"

	Stock for Assets	Annual Good Will as Stated	Share of $1,150,000 Stock	Stock for Good Will	Total Stock
Corporation "A"	$ 50,000	$21,000	21/67	$ 350,000	$ 433,333
Corporation "B"	100,000	8,000	8/67	133,333	233,333
Corporation "C"	200,000	38,000	38/67	633,334	833,334
Totals	$350,000	$67,000		$1,116,667	$1,500,000

Text of Report

Chicago, May 1, 1909.

To the President of Corporation "D," Chicago, Ill.

Dear Sir: In accordance with your instructions and for the purpose of a proposed purchase and amalgamation of Corporations "A," "B," and "C," I have made a thorough and comprehensive investigation of the books and accounts of said Corporations in order to determine their annual net earning capacity for the last five years and also in order to verify the valuations of said corporate assets with the object in view of a fair and reasonable distribution of consolidated capital stock.

As a result of said investigation, I herewith beg to submit the following exhibits, viz.:

Exhibit "A" Balance Sheets of Corporations "A," "B" and "C" as on December 31, 1908.
Exhibit "B" Consolidated Balance Sheet as on December 31, 1908.
Exhibit "C" Statement of Profit and Loss for the five years ending December 31, 1908, of Corporations "A," "B" and "C."
Exhibit "D" Statement of proposed basis for merger.
Exhibit "E" Statement of proposed distribution of consolidated stock.

The assets of Corporations "A," "B" and "C" are conservatively stated so as to disclose the true state of affairs.

The pure trading profits of the corporations, as stated in exhibit "C," give a reasonable idea of the earnings on the basis of past results for a period of five years. As a basis for consolidation and an equitable distribution of amalgamated stock, I respectfully propose the following scheme.

In my opinion, a fair basis for the apportionment of capital stock can be established only by a separation of assets and good will. The average net capital for the period under review equals the paid up capital stock of the Corporations; hence, a portion of the merged capital stock may be distributed on this basis alone, as shown in exhibit "E." In order to determine the earning capacity, the assets compared with the earnings are the average net assets for the five years, and such assets of all members of the combination shall be given equal weight.

The second portion may be based on the average annual good will on the basis of the excess of earning capacity over a normal income, in this instance 6%, as shown in exhibit "D."

Since the total average earnings are $90,000 per annum, the capitalization of the merger at 6% would be $1,500,000, of which $350,000 would be apportioned on the basis of the average net capital and $1,150,000 would be distributed on the basis of good will, as set out in exhibit "E," showing the ultimate distribution under this plan.

Under the assumption that the future earnings of the merger would be the same as before, or higher, or lower than before, the members of the combination would share the income in the same ratio as before, and an equitable distribution is an established fact.

Respectfully submitted,

——— ———

Accountant.

Problem 15.

(New York Examination, June, 1909.)

John Dickside, a manufacturer's agent who starts in business with a cash capital of $15,000, receives from the manufacturer $45,000 of goods on consignment, subject to a discount of 5% when he pays for the goods.

Dickside pays freight amounting to $1,400, and allows claims for damaged goods amounting to $1,500, the total of which is chargeable to the manufacturer. He sells all of the consigned goods for a total of $60,000, and receives $44,000 from his customers, allowing them in settlement of the accounts $400 discount and $600 for defective goods. He makes the following payments: $2,100 for freight, of which $1,400 is chargeable to the manufacturer as noted above; $900 for expenses; he also pays the manufacturer $37,950.

Prepare account of sales to be rendered to the manufacturer, balance sheet, statement of profit and loss, and statement of capital account.

Solution.

The problem states that Dickside receives a consignment from which he is to deduct 5 per cent. discount when remitting. This could be construed to mean that Dickside is selling the goods on a 5 per cent. commission basis. But, if you take into consideration that Dickside pays $700 for freight, allows $400 discount to his customers, and $600 for defective goods, and incurs expenses of $900, none of which the manufacturer is to pay, it seems that this is not in keeping with the usual procedure of a commission business, but more on the order of commercial transactions that are somewhat along this line.

Mr. Dickside is a commission merchant, broker, jobber, retailer, or what you will. He contracts with a manufacturer to dispose of a lot of goods. He might call it a consignment, but the probabilities are that he will say, 'Send them to me with a memorandum bill, subject to 5 per cent. discount when paid, and I will sell what I can.'

They are billed to him at $45,000 as commonly stated, on memorandum, subject to 5 per cent. discount when paid. He may further stipulate to pay a portion of the freight charges and will surely make claim for any goods damaged in transit or otherwise. Now it has never occurred to him that this is a consignment and that he must account for the amount realized minus certain expenses, commissions, etc. He knows the goods were billed to him at $45,000, less $1,500 for damaged goods, and that he is responsible for that amount less discount and freight.

He sells the goods at the highest price, say $60,000, and on credit. He takes a certain amount of risk, but figures that he will at least more than clear enough to pay the manufacturer and expenses, as his collections later show.

This seems to be a reasonable construction, and gives to Dickside a profit more in keeping with the amount involved and the risk incurred.

Profit and Loss Account

To consignment	$45,000.00				
Less damage allowed by shipper	1,500.00	$43,500.00	Sales		$60,000.00
To allowance made to customers for defective goods.	$600.00				
	$44,100.00				
Gross profit		$15,900.00			
		$60,000.00			$60,000.00
Freight	$2,100.00		Gross profit		$15,900.00
Charged to shipper	1,400.00	$700.00	~~Discount earned~~	$2,175.00	
			Discount allowed	400.00	1,775.00
Expense		900.00			
Net profit		16,075.00			
		$17,675.00			$17,675.00

Capital Account

Investment	$15,000.00
Profit	16,075.00
	$31,075.00

Balance Sheet

Assets		Liabilities	
Cash	$18,050.00	Shipper	$1,975.00
Customers	15,000.00	Capital	31,075.00
	$33,050.00		$33,050.00

Sales Account

Consignment		$45,000.00
Less damaged goods		1,500.00
		$43,500.00
Charges:		
5% discount on $43,500.00	$2 175.00	
Freight	1,400.00	$3,575.00
Credited to shipper		$39,925.00
Less cash paid		37,950.00
Balance due shipper		$1,975.00

Cash Account

Capital		$15,000.00	Freight	$2,100.00
Customers	$44,400.00		Expenses	900.00
Discount	400.00	44,000.00	Shipper	37,950.00
			Balance	1,805.00
		$59,000.00		$59,000.00
To balance		$18,050.00		

Problem 16.

(New York Examination, June, 1909.)

A and B are dealers in bonds and share profits in the proportion of

A seventy-five (75) per cent.
B twenty-five (25) per cent.

A and B engage C to sell bonds, agreeing to pay him a salary equal to twenty-five (25) per cent. of the net profits to be divided between the partners.

During the continuance of C's contract the firm purchases one hundred thousand dollars ($100,000) Waterville Traction Company first mortgage 5% bonds on a 3% basis. The bonds have eighteen (18) months to run, interest payable semi-annually (three interest periods). The firm holds the Waterville bonds till maturity.

Prepare a statement of the Waterville bond accounts, showing cost, interest and amortization. The total profit to be adjusted is ten thousand dollars ($10,000). Show the division of this profit.

Solution.

Operations to find the present worth of a 5% $1,000 bond "on a 3% basis," interest payable semi-annually.

OPERATION A.

1.

Present worth of $1,000 at .015% for 3 half years:
1 at compound interest, .015%, 3 terms = 1.04568;
1 ÷ 1.04568 = .95632 × 1,000 = $956.32.

2.

Present worth of $25, semi-annual cash interest, at .015% for 3 terms:
1 ÷ 1.04568 = .95632; 1 — .95632 = .04368 ÷ .015% = 2.9122 × $25 = $72.80.
956.32 + 72.80 = 1029.12 for one $1,000 bond;
1029.12 × 100 = $102.912, cost of bonds.

3.

Cash rate	2½%	=	$2500.00	interest
Income rate	1½%	=	1543.68	interest
Sinking fund		=	$956.32	

to amortize premiums $2,912.

OPERATION B.

Cash rate .025% = 25.00 interest
Income rate .015% = 15.00 interest

Surplus interest = 10.00

10% is an annuity to be paid in a premium. Present worth of the annuity, $10.00, is found by the following equation:

$$\frac{1 - \frac{1}{(1 + .015)^3}}{.015} = \$2.91220$$

and 2.91220 × 10 = 29.1220.

$$\frac{+\ 1{,}000}{1.029\quad 1220} = \$102.912.20$$

which agrees with the amount given in Professor Sprague's "Extended Bond Tables."*

OPERATION C.

.05% = Cash interest.
.03% = Income basis.
.05 ÷ .03 = 1.6666+ = Stock value.
1.6666+
—1.

0.6666+ = Stock premium.

Present worth of .6666+ due in 3 half years @ .015% = 6.375466. and the stock value being 1.6666667
and the difference 0.6375466

the 1½ years' value is = 1.0291201

Hence, 1.0291201 × 1,000 = $1,029.12 for one bond @ 1,000.

Division of Profits.

Total profits, before adjusting C's salary		$10,000.00
Less C's salary, being 25% of the *net* profits, $10,000, ÷ 125 = 8,000 × 25% =		2,000.00
		$8,000.00
Net profits to be divided between A and B =		
A's share, 75%	$6,000	
B's share, 25%	2,000	$8,000.00

STATEMENT OF THE BOND ACCOUNTS.

5% Bond of the Waterville Traction Co.

Date	Total Interest 5%	Net Income 3%	Amortization	Book Value	Par Palue
			Cost	$102,912.00	$100,000.00
1908 Jan. 1	$2,500.00	$1,543.68	$ 956.32	101,955.68	
July 1	2,500.00	1,529.44	970.56	100,985.12	
1909 Jan. 1	2,500.00	1,514.88	985.12	100,000.00	
	$7,500.00	$4,588.00	$2,912.00		

*This method is the quickest in calculations of this nature, and is recommended by Professor C. E. Sprague in his valuable book "The Accountancy of Investment."

Problem 17.

(This is not a C. P. A. problem, but contains some of the important principles involved in corporation accounting, and shows the effect of the panic of 1907 on the Interstate Manufacturing Company.)

The trial balance of the Interstate Manufacturing Company, on June 30th, 1907, after closing entries have been made, is given below:

Patents and good will	$250,000.00	
Office Furniture	8,746.00	
Inventory, June 30, 1907		
Raw material	83,247.00	
Supplies	4,932.00	
Finished goods	42,761.00	
Petty cash	100.00	
Land	270,000.00	
Buildings	165,000.00	
Machinery	235,000.00	
Cash subject to check	69,433.00	
Accounts receivable	273,842.00	
Common capital stock		$500,000.00
Preferred capital stock		500,000.00
Bonds 6 per cent. 50 year 1st mortgage issued June 30, 1907		200,000.00
Premium on bonds		20,000.00
Pref. stock dividends payable Aug. 1907.		17,500.00
Com. stock dividend payable Aug., 1907		12,500.00
Reserve for bad and doubtful accounts		8,294.00
Undivided surplus		66,375.00
Accounts payable		78,392.00
	$1,403,061.00	$1,403,061.00

During the year ending June 30th, 1908, the company purchased 29,047 tons of raw material at $22 per ton, which was delivered before the books closed. Of the amount purchased, payment has been made for 26,647 tons. They have also made payments for the following accounts:

Accounts payable, $78,392; salaries, $80,360; selling expense, $86,017; labor, $468,932; shop expense, $9,461; taxes, $7,842; repairs and maintenace, $30,955; office expense, $2,478, and supplies, $37,637.

Customers have paid $1,502,927 in cash, and have been given discounts amounting to $18,395. Returns and allowances amount to $8,474. Bad debts written off, $2,407. Rent, $500, and sales, $1,515,572.

Fifty thousand dollars was loaned on call on June 30th, 1908, the market value of the collateral security being $72,100.

The inventory on June 30, 1908, is made up of finished goods, $20,495; supplies, $8,129, and $2,163 tons of raw material, the market price of which is $24 per ton. The land is estimated to be worth $300,000.

Semi-annual dividends of 3½% on the preferred stock and 2½% on the common stock have been paid from the earnings of the half year end-

ing December 31, 1907. Dividends at the same rate have been declared on the preferred and common stock for the last half of the fiscal year, payable in August, 1908.

You are asked to set up a balance sheet dated June 30, 1908, and accompany it with a business statement which will show correctly the condition of the company.

The following annual rates of depreciation are to be assumed.

Buildings, 3%; machinery, 7½%; office furniture, 10%. It is also assumed that there should be a reserve for bad and doubtful accounts equal to 3% of the balance of accounts receivable.

Solution.

PROFIT AND LOSS AND INCOME STATEMENT FOR THE YEAR ENDING JUNE 30th, 1908.

SALES	$1,515,572.00	
Less returns and allowances	8,474.00	$1,507,098.00
PRIME COST AND OVERHEAD ON GOODS MANUFACTURED.		
Raw Material	674,695.00	
Labor	468,932.00	
Supplies	34,440.00	
Shop Expense	9,461.00	
Repairs and Maintenance	30,955.00	
Depreciation of machinery	17,625.00	
Depreciation of buildings	4,950.00	
	$1,241,058.00	
ADD.		
Finished goods on hand, June 30, 1907	42,761.00	
	$1,283,819.00	
DEDUCT		
Finished goods on hand, June 30, 1908	20,495.00	
COST OF GOODS SOLD		$1,263,324.00
Balance, gross profits		$243,774.00
OTHER INCOME.		
Rent		500.00
		$244,274.00
GENERAL AND SELLING EXPENSES.		
Salaries	$80,360.00	
Selling expense	86,017.00	
Discount on sales	18,395.00	
Office expenses	2,478.00	
Depreciation of furniture	875.00	
Taxes	7,842.00	$195,967.00
Balance		$48,307.00

DEDUCT.		
Interest on 50 years 6% Bonds.........	$12,000.00	
Less premium written off..............	400.00	11,600.00
		$36,707.00
3% reserve for bad and doubtful debts...		7,716.00
Balance, net profit		$28,991.00
ADD.		
Undivided surplus on June 30, 1907........		66,375.00
Making a total of................		$95,366.00
DEDUCT.		
Dividends for the year:		
On preferred capital stock 3½% paid February, 1908........................	$17,500.00	
On preferred capital stock 3½% payable August, 1908.........................	17,500.00	
On common capital stock 2½% paid February, 1908........................	12,500.00	
On common capital stock 2½% payable August, 1908.........................	12,500.00	$60,000.00
Balance surplus, June 30, 1908...........		$35,366.00

BALANCE SHEET

OF THE INTERSTATE MANUFACTURING COMPANY AS OF JUNE 30, 1908

ASSETS

PROPERTY			
Patents and good will		$250,000	
Land		270,000	
Buildings	$165,000		
Less reserve	4,950	160,050	
Machinery	$235,000		
Less reserve	17,625	217,375	
Furniture	8,746		
Less Reserve	875	7,871	$905,296
CURRENT ASSETS			
Inventories			
Finished goods	$20,495		
Supplies	8,129		
Raw material at cost	47,586	$76,210	
Accounts receivable	257,211		
Less current reserve	7,716	249,495	
Cash:			
Subject to check	62,552		
Petty cash	100		
Loaned on call	$50,000	$112,652	$438,357
			$1,343,653

LIABILITIES AND CAPITAL

CAPITAL STOCK:			
Common		$500,000	
Preferred		500,000	$1,000,000
BONDS:			
50 year 6 per cent. first mortgage due 1957			200,000
PREMIUM ON BONDS	$20,000		
Less amount written off	400		19,600
CURRENT LIABILITIES:			
Accounts payable		52,800	
Preferred stock dividend payable August, 1908		17,500	
Common stock dividend payable August, 1908		12,500	82,800
UNDIVIDED SURPLUS			35,366
Reserve for bad and doubtful debts		8,294	
Less bad debts		2,407	5,887
			$1,343,653

Problem 18.

(Michigan Examination, July, 1909.)

X, Y and Z, foundry men, unable to meet their obligations, suspend payment January 1, 1908, and appoint a trustee to realize and liquidate for the benefit of their creditors. The books showed the following assets and liabilities:

Assets		Liabilities	
Land and Buildings....	$125,000.00	Mortgage on Foundry Premises...........	$100,000.00
Machinery & Tools....	75,000.00	Notes Payable........	135,000.00
Furniture & Fixtures..	10,000.00	Accounts Payable.....	105,000.00
Materials & Supplies...	95,000.00	Interest accrued on Mortgage..........	1,250.00
Notes Receivable......	15,000.00	Taxes accrued (estimated)............	835.00
Accounts Receivable...	115,000.00	Capital..............	93,365.00
Cash................	450.00		
	$435,450.00		$435,450.00

The trustee's cash receipts and payments during the year 1908 were as follows:

Receipts		Payments	
Notes Receivable (Outstanding January 1, 1908)..............	$15,000.00	Notes Payable........	$25,000.00
Accounts Receivable (Outstanding January 1, 1908)........	106,500.00	Accounts Payable.....	35,000.00
Cash Sales...........	5,435.00	Interest on Mortgage one year at 5%......	5,000.00
Notes Receivable (Contracted during 1908).	13,500.00	Taxes for year 1907....	865.00
Accounts Receivable (Contracted during 1908)............	212,000.00	Purchase of Material and Supplies........	98,000.00
		Labor...............	135,000.00
		General Expenses.....	45,000.00
		Interest on Bills Payable to Sept. 30, '08 at 5%............	2,800.00
Total Receipts........	$352,435.00	Total Payments.......	$346,665.00

Other transactions were as follows:

Sales on Credit		$335,000.00
Bad debts written off accounts prior to Jan. 1, 1908	$8,000.00	
Bad debts written off accounts subsequent to Jan. 1, 1908	2,000.00	10,000.00
Discounts and allowances to Customers' Accounts prior to January 1, 1908	$500.00	
Discounts and allowances to Customers' Accounts subsequent to January 1, 1908	300.00	800.00
Notes received from customers		20,000.00
Notes given to creditors ($110,000.00 being renewals)		180,000.00
Inventory of Materials, December 31, 1908		92,000.00

At the end of the year the business was returned to the owners. Prepare realization and liquidation account; and balance sheet.

Solution.

Realization and Liquidation Account rendered by the Trustee of X, Y and Z.

ASSETS TO BE REALIZED:			LIABILITIES TO BE LIQUIDATED:		
Notes Receivable.	$15,000		Notes Payable.	$135,000	
Accounts Receivable.	115,000		Accounts Payable.	105,000	
Materials & Supplies	95,000		Taxes accrued	835	
Furniture & Fixtures.	10,000		Mortgage	100,000	
Machinery & Tools.	75,000		Interest on mortgage accrued.	1,250	$342,085.00
Land & Buildings	125,000	$485,000.00			
LIABILITIES LIQUIDATED:			**ASSETS REALIZED:**		
Notes Payable	$25,000		Notes Receivable	$15,000	
Accounts Payable	35,000		Accounts Receivable	106,500	$121,500.00
Taxes accrued	835				
Interest accrued on mortgage.	1,250	$62,085.00			
LIABILITIES NOT LIQUIDATED:			**ASSETS NOT REALIZED:**		
Notes Payable	$110,000		Furniture & Fixtures	$10,000	
Accounts Payable	70,000		Machinery & Tools	75,000	
Mortgage Payable	100,000	$280,000.00	Land & Buildings	125,000	$210,000.00
SUPPLEMENTARY CHARGES:			**SUPPLEMENTARY CREDITS:**		
Purchase of materials & supplies	$168,000		Sales on credit $335,000; Cash Sales 5,435		$340,435
Labor.	135,000		Less bad debts (1908 only)	$2,000	
General Expense	45,000		Discounts & allowances (1908 only).	300	2,300
Interest on mortgage (including accrued $1250.)	5,000				$338,135
Interest on Notes Payable	2,800		Inventory of materials & supplies	92,000	$430,135.00
Taxes, balance for 1907 $30. Estimate for 1908 $865	895	$356,695.00	Net Loss		30,060.00
		$1,133,780.00			$1,133,780.00

BALANCE SHEET OF THE FIRM X, Y AND Z AS OF DECEMBER 31, 1908

Assets:

Cash in possession of trustee		$6,220	
Notes Receivable.........	$6,500		
Accounts Receivable......	100,700	$107,200	
Inventory of Materials and supplies ..		92,000	$205,420
Land and Buildings................		$125,000	
Machinery and Tools................		75,000	
Furniture and Fixtures..............		10,000	210,000
			$415,420

Liabilities:

Notes Payable.............	$180,000		
Accounts Payable..........	70,000	$250,000	
Mortgage on Foundry Premises............................		100,000	
Accrued interest on mortgage....................	$1,250		
Accrued taxes,............	865	2,115	$352,115
Proprietorship:			
Capital Jan. 1, 1908.........	$93,365		
Deduct losses as per Realization and Liquidation account..................	30,060		
Capital Jan. 1, 1909.........			63,305
			$415,420

Problem 19.

(Michigan Examination, July, 1909.)

On January 1, the Fairview Real Estate Association was incorporated, the capital subscribed and paid in being $30,000, divided into 30 shares. The association purchased improved property for speculative purposes, paying cash $30,000.00 and giving a first mortgage for $60,000.00 at 6%.

The association organized and incorporates on the same day the Fairview Club with 30 proprietary members (being the stockholders of the real estate association) and 30 associate members who have no proprietary interest, but enjoy all privileges without incurring any of the liabilities. The annual dues are $100.00 a year, paid by all in advance.

The association leases to the club the property aforesaid, the consideration in lieu of rent, being the payment by the club of all sums for taxes, betterments, interest, fixtures, furniture, etc.

The proprietary members are assessed $300.00 each, and by a subsequent resolution of the association are to receive credit therefor, with interest at 6%. Five members fail to pay the assessment.

The association having executed a contract for the sale of the property for $110,000.00 the club disbands at the end of the year.

The club expenditures for the year were as follows; Taxes $1,800.00; interest on mortgage $3,600.00; Repairs $1,000.00; Improvements $3,000.00; Furniture and fixtures $2,000.00; General Expenses $500.00 Help (sundry employees) $1,600.00.

There were house charges against the members $500.00, which were subsequently collected; and there were payable book debts of $4,000 00. A second assessment of $100.00 called for to pay off the club debts, was paid by the proprietary members of the association.

Frame journal entries, raise and close accounts on the association and club books, and prepare balance sheet and revenue account for each

Solution.

JOURNAL
OF THE
FAIRVIEW REAL ESTATE ASSOCIATION,
January, 1909.

THE FAIRVIEW REAL ESTATE ASSOCIATION,
A CORPORATION ORGANIZED JANUARY 1, 1909, UNDER THE LAWS OF THE STATE OF——, WITH A CAPITAL SUBSCRIBED AND PAID IN OF
$30,000.00,
DIVIDED INTO 30 SHARES, EACH $1,000 PAR.

Subscribers............................	$30,000.00	
For their shares of subscribed stock of The Fairview Real Estate Association.		
To Capital Stock..................		$30,000.00
Issued to the subscribers, as per their subscriptions.		
Cash..................................	30,000.00	
Payments of subscribers for their subscription.		
To Subscribers.....................		30,000.00
Being settlement for capital stock issued.		

Real estate..............................	$90,000.00	
Purchased this day for speculative purposes.		
To Cash..........................		30,000.00
Part payment for improved property bought this day.		
First mortgage..........................		60,000.00
For balance of purchase price of property bought with 6% interest.		

The association organizes and incorporates the Fairview Club with 30 proprietary members (stockholders of the Real Estate Association) and 30 associate members, who have no proprietary interest, but enjoy all privileges without incurring any liabilities. Annual dues to be $100.00.

The association leases to the club their property, for the payment by the club of all taxes, betterments, interest, fixtures, etc.

Cash..................................	110,000.00	
Selling price realized on the sale of the property of the association.		
To Real Estate		110,000.00
Sale of the improved property.		
First mortgage..........................	60,000.00	
Settlement of mortgage issued at the time of purchase of real estate.		
To Cash............................		60,000.00
The property being sold, the mortgage is now settled.		

LEDGER

OF THE

FAIRVIEW REAL ESTATE ASSOCIATION.

Subscribers.

To capital stock....	$30,000.00	By cash............	$30,000.00

CAPITAL STOCK.

		By subscribers......	$30,000.00

CASH.

To subscribers......	$30,000.00	By real estate.......	$30,000.00
Real estate.......	110,000.00	First mortgage....	60,000.00
		Balance..........	50,000.00
	$140,000.00		$140,000.00
To balance.......	$50,000.00		

REAL ESTATE.

To sundries........	$90,000.00	By cash............	$110,000.00
Income..........	20,000.00		
	$110,000.00		$110,000.00

FIRST MORTGAGE.

To cash............	$60,000.00	By real estate.......	$60,000.00

INCOME AND REVENUE ACCOUNT.

To surplus.........	$20,000.00	By real estate.......	$20,000.00

SURPLUS.

		By income and revenue account..........	$20,000.00

BALANCE SHEET.

Cash...............	$50,000.00	Capital.............	$30,000.00
		Surplus...........	20,000.00
	$50,000.00		$50,000.00

JOURNAL
OF THE
FAIRVIEW CLUB.

THE FAIRVIEW CLUB

ORGANIZED BY THE FAIRVIEW REAL ESTATE ASSOCIATION WITH 30 PROPRIETARY MEMBERS, AND 30 ASSOCIATE MEMBERS. ANNUAL DUES, $100.

Cash.................................... Dues received from the 60 members of the club.	$6,000.00	
To Dues.............................. Collected from the proprietary and associate members, each $100.00.		$6,000.00

The club agrees to lease the property of the Real Estate Association and in consideration of rent to pay all taxes, interest charges, repairs and improvements of the association.

Members (indiv.)		$9,000.00	
For assessment of $300.00 each proprietary member			
To Assessment			9,000.00
Assessing the 30 proprietary members.			
Cash		7,500.00	
Collected of 25 members the assessment levied.			
To Members (indiv.)			7,500.00
For cash assessment of $300.00 each, paid by the 25 proprietary members.			
Assessments		7,500.00	
According to a subsequent resolution of the association the responded assessment is credited to the members individually.			
To Members			7,500.00
Crediting each member individually with the responded assessment.			
Cash		3,000.00	
Collected another assessment, levied upon the proprietary members.			
To Assessment			3,000.00
Proprietary members responded to a second assessment of $100.00 each.			
Assessment		1,500.00	
To Members (indiv.)			1,500.00
This entry to close the accounts of the five members who failed to respond with the first assessment of $300.00 each.			
Expenses		13,500.00	
Taxes	$1,800.00		
Interest on mortgage	3,600.00		
Repairs	1,000.00		
Improvements	3,000.00		
Furniture and fixtures	2,000.00		
General expense	500.00		
Help (employment)	1,600.00		
To Cash			13,500.00

LEDGER

OF THE

FAIRVIEW CLUB.

Dues.

To income	$6,000.00	By cash	$6,000.00

CASH.

To dues	$6,000.00	By expense	$13,500.00
Members	7,500.00	Balance	3,000.00
Assessment	3,000.00		
	$16,500.00		$16,500.00
To balance	$3,000.00		

MEMBERS.

To Assessment	$9,000.00	By Assessment	$7,500.00
Balance	7,500.00	Cash	7,500.00
		Assessment	1,500.00
	$16,500.00		$16,500.00
		By balance	$7,500.00

ASSESSMENT.

To members	$7,500.00	By members	$9,000.00
Members	1,500.00	Cash	3,000.00
Income	3,000.00		
	$12,000.00		$12,000.00

EXPENSE.

To sundries	$13,500.00	By revenue	$13,500.00

INCOME AND REVENUE ACCOUNT.

To expense	$13,500.00	By dues	$6,000.00
		Assessment	3,000.00
		Loss	4,500.00
	$13,500.00		$13,500.00

DEFICIENCY ACCOUNT.

To income account	$4,500.00

BALANCE SHEET.

Cash	$3,000.00	Members	$7,500.00
Deficiency	4,500.00		
	$7,500.00		$7,500.00

Problem 20.

(Following is one of the problems set by the New York Municipal Civil Service Commission at the fourth grade accountant examination held in New York.)

The Consolidated Manufacturing Company is organized under the laws of the State of New York, with a capital of $2,500,000.00, consisting of 10,000 shares of preferred, and 15,000 shares of common stock all of a par value of $100.00.

The company has entered into contracts with the firm of Jones & Jackson, and with the Independent Manufacturing Company for the purchase of their plants and other assets in consideration of $1,000,000.00 and $1,500,000.00 respectively, payable two-fifths in preferred stock and three-fifths in common stock. The liabilities of the vendors are to be assumed by the purchaser. The vendors agree to donate to the treasury of the Consolidated Company 15 per cent. of the common stock received by them to furnish additional working capital.

500 shares of the stock so donated are sold from the treasury at $40.00 per share. $500,000.00 of first mortgage bonds are issued and sold at 90, the purchaser receiving with each bond a bonus of 15 per cent. in common stock.

Below are given the balance sheets of the vendors. Frame the closing entries for the books of Jones and Jackson, and the opening entries for the Consolidated Company, and prepare balance sheet for the latter.

BALANCE SHEET

JONES & JACKSON

Assets:		Liabilities:	
Real estate and buildings	$246,000.00	Jones' capital account	$300,000.00
Plant	137,000.00	Jackson's capital account	200,000.00
Cash	28,000.00	Bills payable	50,000.00
Bills receivable	76,000.00		
Accounts receivable	43,000.00		
Horses, wagons and harness	7,000.00		
Jones' drawing account	8,000.00		
Jackson's Drawing account	5,000.00		
	$550,000.00		$550,000.00

BALANCE SHEET OF INDEPENDENT MANUFACTURING COMPANY

Assets:		Liabilities:	
Real estate and buildings	$365,000.00	Capital stock	$700,000.00
Plant	252,000.00	Surplus	100,000.00
Cash	48,000.00	Undivided profits	36,000.00
Bills receivable	37,000.00	Loans	40,000.00
Accounts receivable	115,000.00		
Horses, wagons and harness	9,000.00		
Goodwill	50,000.00		
	$876,000.00		$876,000.00

Solution.

Journal Entries to Close Books of Jones and Jackson

Consolidated Manufacturing Company....	$537,000.00	
To real estate and buildings............		$246,000.00
Plant............................		137,000.00
Cash............................		28,000.00
Bills receivable....................		76,000.00
Accounts receivable................		43,000.00
Horses, wagons and harness........		7,000.00
Transfer of existing assets to Consolidated Manufacturing Company as per contract.		
Consolidated Manufacturing Company....	513,000.00	
To Goodwill.........................		513,000.00
Excess valuation represented by Goodwill, transferred to Consolidated Manufacturing Company, as per contract.		
Bills payable..........................	50,000.00	
To Consolidated Manufacturing Company.........................		50,000.00
Assumption of existing liability on outstanding notes, by Consolidated Manufacturing Company, as per contract.		
Preferred Capital Stock.................	400,000.00	
Common Capital stock..................	600,000.00	
To Consolidated Manufacturing Company..........................		1,000,000.00
Representing the receipts of 4,000 shares of preferred capital stock and 6,000 shares of common capital stock, par value of each, $100, from the Consolidated Manufacturing Company, in settlement of purchase contract.		
Goodwill.............................	513,000.00	
To Jones' drawing account............		256,500.00
Jackson's drawing account..........		256,500.00
Representing the transfer of the excess valuation placed on the assets of our firm by the Consolidated Manufacturing Company.		
Jones' drawing account.................	248,500.00	
Jackson's drawing account..............	251,500.00	
To Jones' capital account.............		248,500.00
Jackson's capital account...........		251,500.00
Representing the transfer of the drawing account to the capital account in order to close the former.		
Jones' capital account..................	548,500.00	
Jackson's capital account................	451,500.00	
To Preferred capital stock.............		400,000.00
Common capital stock.............		600,000.00
Representing the closing of the capital account as the stock is issued to the individual owners of the business.		

JOURNAL ENTRIES TO OPEN BOOKS OF COMPANY

THE CONSOLIDATED MANUFACTURING COMPANY

Incorporated Under the Laws of the

State of New York with an

AUTHORIZED CAPITAL

OF

$2,500,000.00

Divided into

10,000 shares of preferred stock,
15,000 shares of common stock,
par value, $100.00 each

Plant and sundry assets................	$2,590,000.00	
To Jones and Jackson................		$1,050,000.00
Independent Manufacturing Comdany........................		1,540,000.00
For the transfer to this company by the above mentioned vendors their right, title and interest in all the assets, including Goodwill, fully set forth in the bill of sale, dated........ pursuant to the resolution of the Board of Directors, recorded in minute book, page...		
Jones and Jackson.....................	50,000.00	
Independent Manufacturing Company....	40,000.00	
To Sundry liabilities................		90,000.00
Representing assumption of the liabilities of the respective firms, mentioned above, by the Consolidated Manufacturing Company, in part consideration for assets acquired.		
Jones and Jackson.....................	1,000,000.00	
Independent Manufacturing Company....	1,500,000.00	
To Preferred capital stock............		1,000,000.00
Common capital stock............		1,500,000.00
For 4,000 shares of preferred capital stock and 6,000 shares of common capital stock issued to the firm of Jones and Jackson and 6,000 shares of preferred capital stock and 9,000 shares of common capital stock issued to the Independent Company in final payment for assets bought, as per bill of sale dated..................		

Real estate and buildings	$611,000.00	
Plant	389,000.00	
Cash	76,000.00	
Bills receivable	113,000.00	
Accounts receivable	158,000.00	
Horses, wagons and harness	16,000.00	
Goodwill	1,227,000.00	
To Plant and sundry assets		$2,590,000.00
For the purpose of placing the respective assets, under appropriate headings, on the books of the company.		
Sundry liabilities	90,000.00	
To Bills payable		50,000.00
Loans		40,000.00
For the purpose of placing the respective liabilities, under appropriate headings, on the books of the company.		
Treasury stock	150,000.00	
To Reserve for Working Capital		150,000.00
Representing 1,500 shares of common capital stock donated to the company by the stockholders.		
Cash	20,000.00	
Reserve for working capital	30,000.00	
To Treasury stock		50,000.00
Representing the sale of 500 shares of common capital stock held in the treasury at $40.00 per share.		
Cash	450,000.00	
Discount on bonds	50,000.00	
Reserve for working capital	75,000.00	
To First mortgage bonds payable		500,000.00
Treasury stock		75,000.00
Representing the issue and sale of $500,000.00, first mortgage bonds at 90, and also the issue of 750 shares of common stock, held in the treasury, as a bonus on the sale of the bonds.		

BALANCE SHEET OF THE CONSOLIDATED MANUFACTURING COMPANY

ASSETS:

Cash	$546,000.00	
Bills receivable	113,000.00	
Accounts receivable	158,000.00	
Treasury stock	25,000.00	$842,000.00
Plant	$389,000.00	
Real estate and buildings	611,000.00	
Horses, wagons and harness	16,000.00	1,016,000.00
Discount on bonds	$50,000.00	
Goodwill	1,227,000.00	1,277,000.00
		$3,135,000.00

LIABILITIES:

Loans		$40,000.00	
Bills payable		50,000.00	
			$90,000.00
First mortgage bonds payable			500,000.00
Preferred capital stock	$1,000,000.00		
Common capital stock	1,500,000.00		
			2,500,000.00
Reserve for working capital			45,000.00
			$3,135,000.00

Problem 21.

(Ohio Examination, March, 1910.)

You have made an audit of the books of The Alpha Water Company of Delta, under instructions from The Zed Trust Company.

They expect you not only to make an audit and furnish them with the usual report thereon, but ask you to make a thorough examination of the business, and make such criticisms, and call their attention to such facts, as will enable them to determine their policy in reference to their loan.

The following is a trial balance from the general ledger of the company:

TRIAL BALANCE OF THE ALPHA WATER COMPANY, DECEMBER 31, 1909.

Plant, Franchises, etc.		$970,000.00	
Consolidated Mortgage Bonds in Escrow to retire prior issue		205,000.00	
Bonds pledged with The Zed Trust Co., as collateral for loan		250,000.00	
Cash—Last days collection not deposited		300.00	
Petty Cash Fund		100.00	
Cash in Bank		8,200.00	
Controlling Accounts Receivable:			
Meter Rate Ledger Accounts in Dr.	$5,000.00		
Meter Rate Ledger Accounts in Cr.	500.00		
		4,500.00	
Flat Rate Ledger Accounts in Dr.	100.00		
Flat Rate Ledger Accounts in Cr.	150.00		
			$50.00
Inventory Account		3,100.00	
Personal Account—A			500.00
Personal Account—B		2,000.00	
Controlling Accounts Receivable:			
Meter Sales Ledger		200.00	
Meter Repairs Ledger		50.00	
Miscellaneous Accounts Receivable		60.00	
Prepaid Insurance		100.00	
Meter Rate Earnings—Accrued		3,000.00	
Flat Rate Earnings—Prepaid			1,500.00
Mortgage Bonds:			
Consolidated Mortgage Bonds	$500,000.00		
Prior Mortgage Bonds	205,000.00		
			705,000.00
Guarantee Deposits—to guarantee meter bills			800.00
Bills Payable—as per schedule			210,000.00
Accounts Payable			20,500.00
Profit and Loss Account—Surplus at January 1, 1909			3,000.00

Capital Stock		500,000.00
Bond Interest Accrued		1,000.00
Unpaid Payroll		500.00
Interest Accrued on Bills Payable		900.00
Taxes Accrued		2,500.00
Construction Account	2,000.00	
Land Rental Accrued	200.00	
Meter Account—Profit from sale of meters		1,200.00
Meter Repairs—Profit		90.00
Discounts—Taken		20.00
Hydrant Rental		8,000.00
Meter Rate Earnings		50,000.00
Flat Rate Earnings		9,400.00
Miscellaneous		1,000.00
Interest on Bonds	12,500.00	
Interest on Bills Payable	12,600.00	
Insurance	150.00	
Wages—Pumping Station	6,500.00	
Fuel	12,000.00	
Repairs to Machinery	1,300.00	
Oil Packing and Waste	150.00	
Repairs to Buildings	100.00	
Repairs to Tools	150.00	
Miscellaneous Pump House Expense	600.00	
Repairs—Water Supply	250.00	
Repairs—Pipe System	1,650.00	
Office Expense	1,300.00	
Office Rent	600.00	
Salaries of Management	7,000.00	
Stationery, Printing and Postage	250.00	
Stable Expense	300.00	
Miscellaneous Expense	1,150.00	
Maintenance and Operation of Filtration Plant	3,500.00	
Maintenance and Operation of Stand Pipe	100.00	
Taxes	5,000.00	
	$1,515,960.00	$1,515,960.00

Schedule of Bills Payable.

The Zed Trust Co.		$190,000.00
Demand note at 6% interest		
The Delta National Bank		10,000.00
Note due February 1, 1910	$5,000	
Note due March 1, 1910	5,000	
Both for four months at 6%		
The National Filtration Construction Co.		10,000.00
Note for one year—due March 1, 1910, at 6%		
		$210,000.00

The company furnishes water to consumers on meter connections which are payable on readings at the end of every three months; also to other customers at flat rates payable in advance every six months.

The company buys meters and sells to users at some increase over cost.

The company keeps meters in repair and makes repair charges to consumers.

The company, under its franchise, furnishes free water for all municipal and charitable purposes, except a fixed rental per annum for each fire hydrant, for which the city pays.

The franchise provides that when the annual gross earnings from water shall equal $65,000 the company shall pay into the treasury of the city one per cent. of such gross earnings. No such payment has been provided for.

Your audit has revealed the fact that water rates accrued are greater by $2,000.00 than shown on the books, as per the above trial balance.

You have also found, not set up on the books, current unaudited invoices payable chargeable to the year 1909, as follows:

Chargeable to Construction	$1,000.00
Machinery Repairs	150.00
Fuel	300.00
Total	$1,450.00

You have, in the course of your examination figured the duty on the pumping engines, and have found that as compared with the average well equipped plant such engines have only 50% of the efficiency of the more modern pumping engines.

Prepare a balance sheet in detail and a condensed balance sheet.

Prepare an income and expense account in detail and a condensed income account.

Indicate as well any supporting schedules you would make supporting the balance sheet or income account.

Cover in your report such matters, under the instruction from your clients, to which you deem their special attention should be directed, and make such suggestions to them as your examination would warrant, giving good reasons for any criticism or suggestions you may have to make.

Solution.

BALANCE SHEET

THE ALPHA WATER COMPANY OF DELTA

(December 31, 1909)

ASSETS:			
COST OF PROPERTY—Plant, Franchise:			
Book Value, January 1, 1909....	$970,000.00		
New Construction during the year—Schedule	3,000.00	$973,000.00	
BONDS:			
Bonds Alpha Water Co.—Held in Escrow	205,000.00		
Bonds Alpha Water Co.—Pledged as Collateral.......	250,000.00	455,000.00	$1,428,000.00
CASH:			
In Bank	8,200.00		
Petty Cash Fund	100.00		
On Hand for Deposit	300.00	8,600.00	
ACCOUNTS RECEIVABLE:			
Meter Rate Ledger	5,000.00		
Flat Rate Ledger	100.00		
Meter Sales Ledger	200.00		
Meter Repairs Ledger	50.00		
Miscellaneous Accounts Receivable	60.00		
Personal Account B	2,000.00	7,410.00	
ACCRUED ACCOUNTS RECEIVABLE:			
Meter Rates Accrued	5,000.00		
Land Rent Accrued	200.00	5,200.00	
UNEXPIRED INSURANCE		100.00	
INVENTORY—Schedule		3,100.00	24,410.00
Total Working Assets			$1,452,410.00
LIABILITIES:			
CAPITAL STOCK		$500,000.00	
MORTGAGE DEBT — Consolidated Mortgage:			
Bonds	$500,000.00		
Prior Mortgage Bonds.........	205,000.00	705,000.00	
Total Capital & Mortgage Debt			$1,205,000.00
BILLS PAYABLE—Schedule		210,000.00	
ACCOUNTS PAYABLE:			
Unpaid vouchers—Schedule.....	21,950.00		
Meter Rate Ledger—Cr. Balances	500.00		
Flat Rate Ledger—Cr. Balances.	150.00		
Unpaid Pay Rolls	500.00		
Personal Account—A	500.00		
City of Delta—1% franchise tax	694.00	24,294.00	

Accrued Accounts:			
Bond Interest Accrued	1,000.00		
Interest Accrued Bills Payable	900.00		
Taxes Accrued	2,500.00	4,400.00	
Prepaid Water Bills—Flat Rate Ledger		1,500.00	
Guaranteed Deposits		800.00	
Total Working Liabilities			240,994.00
Surplus			6,416.00
			$1,452,410.00

CONDENSED BALANCE SHEET

The Alpha Water Company of Delta

(December 31, 1909)

Assets:				
Total Invested and Deferred Assets:				
Excluding Bonds Pledged and Held in Escrow			$973,000.00	
Total working assets			24,410.00	$997,410.00
Liabilities:				
Capital Stock			500,000.00	
Bonds—Prior Issues		$205,000.00		
Bonds—Consolidated Mortgage		500,000.00		
		705,000.00		
Less—Bonds Pledged	$250,000.00			
Bonds in Escrow	205,000.00	455,000.00	250,000.00	
Total Capital & Mortgage Debt			750,000.00	
Total working liabilities			240,994.00	990,994.00
Surplus				$6,416.00

INCOME ACCOUNT

The Alpha Water Company of Delta

(For year ending December 31, 1909)

Income:			
From Sale of Water—Meter Rates	$52,000.00		
From Sale of Water—Flat Rates	9,400.00		
From Sale of Water—Fire Hydrants	8,000.00	$69,400.00	
Meter Sales		1,200.00	
Meter Repairs		90.00	
Discounts Taken		20.00	
Miscellaneous Earnings (as per schedule)		1,000.00	
Gross Earnings			$71,710.00

Expenses:			
Operation—Pumping Station:			
Wages	$6,500.00		
Fuel	12,300.00		
Repairs to Machinery	1,450.00		
Repairs to Buildings	100.00		
Repairs to Tools	150.00		
Oil Waste & Packing	150.00		
Misc. Pump House Expense.	600.00	21,250.00	
Repairs Pipe System		1,650.00	
Repairs Water Supply		250.00	
Operation & Maintenance Filtration Plant		3,500.00	
Maintenance of Stand Pipe		100.00	
Stable Expense		300.00	27,050.00
General Expenses:			
Office Expense		1,300.00	
Office Rent		600.00	
Salaries of Management		7,000.00	
Stationery, Printing & Postage		250.00	
Miscellaneous Expense—Schedule		1,150.00	10,300.00
Total Operating Expense			37,350.00
Taxes	$5,000.00		
Insurance	150.00		5,150.00
Total Operation, Taxes, Insurance..			42,500.00
Net Earnings from Operation			29,210.00
Interest on Funded Debt		12,500.00	
Interest on Unfunded Debt		12,600.00	
1 per cent Franchise Tax		694.00	25,794.00
Net Income for 1909			3,416.00
Surplus—Forwarded January 1, 1909			3,000.00
Surplus—December 31, 1909, as per Balance Sheet			$6,416.00

Note:—No provision made for depreciation.

CONDENSED INCOME ACCOUNT

The Alpha Water Company

(December 31, 1909)

Income:		
Earnings from Sales of Water	$69,400.00	
Earnings from Other Sources	2,310.00	
Gross Earnings		$71,710.00
Expenses.		
Total Operating Expenses, Taxes & Insurance....		42,500.00
Net Earnings from Operation		29,210.00
Interest on Funded Debt	12,500.00	
Interest on Unfunded Debt	12,600.00	
1 per cent Franchise Tax	694.00	25,794.00
Net Income		$3,416.00

Problem 22.

(Illinois Examination, May, 1910.)

A, B and C engage in business, A contributing $10,000 capital; B $5,000, and C undertakes to take the active management at a salary of $3,000 a year, to be paid to him monthly. After providing 5 per cent interest on capital they are to divide the net results in the proportions of 5, 3, and 2. At the end of 18 months they ascertain the position to be unfavorable and decide to wind up. The assets are agreed to be worth $12,500, of which A takes $10,000, and B $2,500. There are no liabilities except for the capital and simple interest thereon, and one month's salary due C. State the position of the three partners to each other.

Solution.

Ascertainment of profit or loss for the period, before charging interest on capital

Joint Capital Account of A, B, and C

To capital at end.......	$12,500.00	By capital at beginning.	$15,000.00
" C, cash, salary 17 mos.	4,250.00	" profit for period....	1,750.00
	$16,750.00		$16,750.00

Profit and Loss Account at End of Period

To *Partners' Interest:*			By profits..............	$1,750.00
A, 5%, 18 mos. on $10,000.......	$750		" balance, net loss.....	3,875.00
B, 5% 18 mos. on $5,000........	375	$1,125.00		
C, salary for 18 mos....		4,500.00		
		$5,625.00		$5,625.00
To balance f'w'd........		$3,875.00	By *Division of Net Loss:*	
			A's share, 5-10.......	$1,937.50
			B's share, 3-10.......	1,162.50
			C's share, 2-10.......	775.00
		$3,875.00		$3,875.00

A's Capital Account

To assets taken over....	$10,000.00	By investment........	$10,000.00
" loss, 5-10 shares.....	1,937.50	" interest, 5%........	750.00
		" balance...........	1,187.50
	$11,937.50		$11,937.50
To balance............	$1,187.50		

B's Capital Account

To assets taken over....	$2,500.00	By investment........	$5,000.00
" loss, 3-10 shares.....	1,162.50	" interest, 5%.......	375.00
" balance............	1,712.50		
	$5,375.00		$5,375.00
		By balance...........	$1,712.50

C's Capital Account

To salary paid, 17 mos..	$4,250.00	By salary, 18 mos......	$4,500.00
" loss, 2-10 share.....	775.00	" balance...........	525.00
	$5,025.00		$5,025.00
To balance............	$525.00		

Problem 23.

(New York Examination, June, 1910.)

The Homes Realty Company was organized January 1, 1906, to own and sell suburban lots, and is operated by a manager under an agreement of which the following is a digest:

The company is to furnish and maintain offices at New York and at the site of the company's property in the suburbs of Philadelphia, and also to pay salaries of clerks and salesmen. The manager is to receive 3% commission on the sales.

The property is to be reappraised at the beginning of each year, by adding to the account 4% on the book figure of the property unsold at the beginning of the preceding year, and by adding the amount of any losses which may have occurred in the preceding year, such additions for losses to be canceled in subsequent years if they are made up by profits. The figures so added shall be prorated over the remaining lots for sale, and the manager is bound not to sell any property at less than the book figure.

The books have been kept for two years without adjusting and closing entries and the accounts show the following figures at December 31, 1907:

Property account (original purchases of 1,000 lots of equal value)	$400,000.00
Capital stock	400,000.00
New York office expense	3,085.00
Philadelphia office expense	5,178.32
Salesmen's salaries	17,500.00
Sales, 220 lots for	111,425.00
Deposits on account of sales not yet closed	215.00
Mortgage held on property sold	38,000.00
Cash	49,096.43
Creditors' accounts (for office supplies)	643.75
Interest on mortgages received	576.00

There is also an amount of $125.00 interest due and not received, and $235.00 accrued interest on mortgages at December 31, 1907.

These figures for expenses and sales appear up to December 31, 1906:

New York office expense	1,435.00
Philadelphia office expense	2,647.82
Salaries of salesmen	8,500.00
Sales, 60 lots for	29,000.00

Prepare a detailed exhibit of operations, also balance sheet as at the beginning of the third year, with exhibit of the property account.

Solution.

Homes Realty Company

Exhibit A; Operating Account, Covering Periods 1906–1907

1906 December 31,	Property account, book value of 60 lots sold during the year at $400 each		$24,000.00
	Salesmen's salaries for the year		8,500.00
	Manager's commission for the year, 3% on sales $29,000		870.00
	New York office expenses		1,435.00
	Philadelphia " "		2,647.82
			$37,452.82
1907 December 31,	Property account, book value of 160 lots sold during the year at $426.01 each		$68,161.60
	Salesmen's salaries for the year		9,000.00
	Manager's commission, 3% on sales, $82,425		2,472.75
	New York office expenses		1,650.00
	Philadelphia " "		2,530.50
	Property account, transfer of profit for the year		3,707.75
			$87,522.60

1906 December 31,	Sales for the year, 60 lots		$29,000.00
	Property account, loss for the year		8,452.82
			$37,452.82
1907 December 31,	Sales for the year, 160 lots		$82,425.00
	Mortgage interest, viz.:		
	Collected	$576.00	
	Due	125.00	
	Accrued	235.00	
			936.00
	Reserve for earnings on investment		4,161.60
			$87,522.60

Homes Realty Company

Exhibit B; Property Account, Covering Periods 1906–1907

Date	Particulars		Amount	Date	Particulars	Amount
1906				1906		
January 1,	Purchase (1,000 lots)		$400,000.00	December 31,	Operating account, book value of 60 lots, sold during the year	$24,000.00
					Balance, carried down	376,000.00
			$400,000.00			$400,000.00
1907				1907		
January 1,	Balance, brought down		$376,000.00	December 31,	Operating account, book value of 160 lots, sold during the year at $426.01 each	$68,161.60
	Reserve for earnings on investment; 4% on original capital, $400,000	$16,000.00			Balance, carried down	332,291.22
	Loss on operation (1906)	8,452.82	24,452.82			
			$400,452.82			$400,452.82
1908				1908		
January 1,	Balance, brought down		332,291.22	January 1,	Reserve for earnings on investment; transfer of profit (1907)	$3,707.75
	Reserve for earnings on investment; 4% on $376,000		15,040.00		Balance, carried down	343,623.47
			$347,331.22			$347,331.22
1908						
January 1,	Balance, brought down Book value of 780 unsold lots		$343,623.47			

HOMES REALTY COMPANY

EXHIBIT C

Balance Sheet January 1, 1908

ASSETS

Cash on hand and in bank		$49,096.43
Mortgage receivable		38,000.00
Interest " Due	$125.00	
Accrued	235.00	360.00
Property account, as per Exhibit B	$343,623.47	
Less reserve for earnings on investment	31,623.47	312,000.00
Total assets		$399,456.43
Deficit		4,745.07
		$404,201.50

LIABILITIES

Accounts payable	$643.75
" " (manager)	3,342.75
Deposits on sales	215.00
Total	$4,201.50

CAPITAL STOCK

Authorized issue	($______)	
Issued and outstanding		400,000.00
		$404,201.50

Problem 24.

(New York Examination, June, 1910.)

The trial balance of the Vincent Manufacturing Company as of December 31, 1906, is given below. Inventory December 31, 1906, $90,000.00.

Prepare a statement of profit and loss and income, showing (a) cost of manufacture, (b) cost of selling, (c) cost of administration, (d) net profit (e) surplus.

TRIAL BALANCE

Discounts, trade	$4,030.00	
Entertainment of customers	2,000.00	
Machinery inventory December 31, 1906	40,000.00	
Tools, inventory December 31, 1906	8,500.00	
Patents inventory December 31, 1906	21,000.00	
Patterns inventory December 31, 1906	12,400.00	
Merchandise consumed	410,000.00	
Bills receivable	3,050.00	
Accounts receivable	250,000.00	
Insurance:		
Machinery, tools and patterns	500.00	
Merchandise	650.00	
Employer's liability premiums	4,000.00	
Taxes, personal property	1,000.00	
Interest, general	4,470.00	
Cash	45,000.00	
Labor, productive	300,000.00	
Labor, unproductive	35,000.00	
Power	21,000.00	
Repairs, machinery	1,310.00	
Factory expenses	3,010.00	
Office pay roll	18,000.00	
Inventory January 1, 1906	75,000.00	
Merchandise sales		$1,048,500.00
Allowances	10,900.00	
Office furniture and fixtures	5,700.00	
Salaries, officers'	15,000.00	
Postage	2,000.00	
Telegrams and telephones	1,800.00	
Collection and exchange	700.00	
Stationery and printing	3,050.00	
Freight, in	23,000.00	
Freight, out	10,000.00	
Cartage and express, in	3,750.00	
Bonding of employees (office)	250.00	
Traveling expense (salesmen)	17,500.00	
Salesmen's commission and salaries	40,000.00	

Bills payable		$99,050.00
Accounts payable		43,000.00
Surplus		43,520.00
Capital stock		200,000.00
Directors' fees	$1,500.00	
Cartage, out	4,300.00	
Discounts, trade		6,300.00
Return sales account	41,000.00	
	$1,440,370.00	$1,440,370.00

Solution.

THE VINCENT MANUFACTURING COMPANY

Income and Profit and Loss Statement for the Period Ending December 31, 1906

Gross sales		$1,048,500.00	
Less return sales		41,000.00	$1,007,500.00
Deductions from sales:			
Trade discounts		$4,030.00	
Allowances		10,900.00	
Cartage outward		4,300.00	
Freight		10,000.00	
Total deductions from sales			29,230.00
Amount realized from sales			$978,270.00
Cost of Manufacture:			
Prime Cost:			
Raw material consumed		$410,000.00	
Freight inward		23,000.00	
Cartage and express inward		3,750.00	
Gross cost of materials		$436,750.00	
Less increase in inventory:			
Inventory, 12/31/'06	$90,000.00		
" 1/1/'06	75,000.00		
	$15,000.00		
Trade discounts	6,300.00	21,300.00	
Cost of materials		$415,450.00	
Productive labor		300,000.00	
Total prime cost		$715,450.00	
Factory overhead charges:			
Unproductive labor	$35,000.00		
Power	21,000.00		
Factory expenses	3,010.00		
Repairs to machinery	1,310.00		
Total factory overhead charges		60,320.00	
Cost of production			$775,770.00
Gross profit on sales			$202,500.00
Cost of Sales:			
Salesmen's commissions and salaries		$40,000.00	
" traveling expenses		17,500.00	
Entertainment of customers		2,000.00	59,500.00
Selling profit			$143,000.00

Cost of Administration:			
Officers' salaries		$15,000.00	
Clerks' "		18,000.00	
Telegrams and telephones		1,800.00	
Postage		2,000.00	
Collection and exchange		700.00	
Stationery and printing		3,050.00	
Bonding of employees, office		250.00	
Director's fees		1,500.00	
Total administration expenses			$42,300.00
Income from sales			$100,700.00
Charges against income:			
Insurance:			
Machinery, tools and patterns	$500.00		
Merchandise	650.00	$1,150.00	
Employer's liability premiums		4,000.00	
Interest, general		4,470.00	
Taxes, personal		1,000.00	
Total charges against income			10,620.00
Net Profit			$90,080.00
Surplus January 1, 1906			43,520.00
Surplus January 1, 1907			$133,600.00

THE VINCENT MANUFACTURING COMPANY

Balance Sheet, December 31, 1906

Assets

Machinery, at inventory value		$40,000.00	
Tools, " " "		8,500.00	
Patents, " " "		21,000.00	
Patterns, " " "		12,400.00	
Office furniture and fixtures, at inventory value		5,700.00	$87,600.00
Inventory		$90,000.00	
Notes receivable	$3,050		
Accounts "	250,000	253,050.00	
Cash on hand and in bank		45,000.00	388,050.00
			$475,650.00

Liabilities

Notes payable	$99,050.00	
Accounts "	43,000.00	$142,050.00

Capital and Surplus

Capital stock, issued and outstanding	$200,000.00	
Surplus as per statement of profit and loss	133,600.00	333,600.00
		$475,650.00

Problem 25.

(New York Examination, June, 1910.)

A partnership was formed July 1, 1907 to act as factory selling agents, with capital invested by A, $5,000.00; B, $7,000.00; C, $8,000.00; profits and losses to be shared in proportion to original capital investments, no interest to enter into partners' accounts.

On December 31, 1909, the books, which had been badly kept, showed the following balances, which were not disputed by any of the partners: A, net credit, $3,000.00; B, net debit, $3,370.00; C, net credit, $4,650.00; cash in banks and on hand, $804.20; expense debit, $4,550.00; interest credit, $250.00; accounts receivable, factories, $2,240.00; investment account, $12,000.00.

The firm holds a number of one year sales contracts, under which the minimum guaranteed will net $15,000.00 in commissions, although it is believed that the amount may run to $20,000.00. The factories make shipments to customers direct and send monthly statements to A, B and C of shipments and commissions. The investment account represents holdings at par of 75% of the capital stock of a company on whose books at the end of 1909 appears a deficit of $2,700.00.

A and B have agreed to sell their interest in the business at December 31, 1909, including the firm name, to C for 200 cents on the dollar, taking notes covering eighteen months.

Prepare a statement showing the settlement between partners at December 31, 1909, and a balance sheet as at January 1, 1910, of A, B and C.

Solution.

A's Capital Account

Date	Particulars	Amount	Date	Particulars	Amount
1909			1907		
December 31,	Cash, drawings to date	$2,000.00	July 1,	Cash investment	$5,000.00
	C's notes, covering 18 months, in settlement	19,119.60	1909		
			December 31,	One-fourth net income	2,184.80
				Contracts, one-fourth estimated value	4,375.00
				Good will, 100% interest in the firm	9,559.80
		$21,119.60			$21,119.60

B's Capital Account

Date	Particulars	Amount	Date	Particulars	Amount
1909			1907		
December 31,	Cash, drawings to date	$10,370.00	July 1,	Cash investment	$7,000.00
	C's notes, covering 18 months in settlement	11,627.44	1909		
			December 31,	Seven-twentieths net income	3,058.72
				Contracts, seven-twentieths estimated value	6,125.00
				Good will, 100% interest in the firm	5,813.72
		$21,997.44			$21,997.44

C's Capital Account

Date		Amount	Date		Amount
1909			1907		
December 31,	Cash, drawings to date	$3,350.00	July 1,	Cash investment	$8,000.00
	Balance	15,145.68	1909		
			December 31,	Two-fifths net income	3,495.68
				Contracts, two-fifths estimated value	7,000.00
		$18,495.68			$18,495.68
			1910		
			January 1,	Balance	$15,145.68

A. B. and C.

Balance Sheet, January 1, 1910.

Assets:			*Liabilities:*		
Cash on hand and in bank		$804.20	Notes payable for purchase of business, covering 18 mos.:		
Accounts Receivable, factories	$2,240.00		A	$19,119.60	
Contracts at estimated value	17,500.00		B	11,627.44	$30,747.04
		19,740.00			
Investments	$12,000.00		*Proprietorship:*		
Less reserve to cover loss	2,025.00				
		9,975.00			
Good will		15,373.52	C., Capital account		15,145.68
		$45,892.72			$45,892.72

Problem 26.

(New York Examination, June, 1910.)

The Patent Specialty Company was organized July 1, 1907, with a capital of $100,000.00, to manufacture novelties. The following transactions occurred:

July 1, 1907, one-half of capital stock was subscribed and issued, 10% being called and paid on that date in cash. Legal and other incorporation expenses, amounting to $500.00, were paid.

August 20, 1907, patent, covering novelty, was purchased for $50,000.00, payable one-half in stock and one-half in cash; the stock was issued and delivered, $2,000.00 paid in cash and note given for balance, due in one month, 6% interest. The patent was subject to royalty rights, granted to the Novelty Company, which terminated at date of purchase. All accrued royalties were to pass with patent and no royalty rights were granted by the Patent Specialty Company.

August 27, 1907, the Village Board of Trade donated a lot, valued at $5,000.00, in consideration of agreement to erect and equip a plant at cost of not less than $25,000.00.

September 13, 1907, a further call of 70% was paid. The note was paid at maturity.

December 31, 1907, the following facts existed:

Payments on account of salaries, interest, insurance, etc., amounted to, $2,250.00, with $250.00 accrued; contracts for construction and equipment amounting to $35,000.00 had been given, which were 75% completed and 40% paid; royalties amounting to $2,725.00 had been received and $190.00 was accrued.

Prepare journal entries to cover foregoing and statement to display financial condition at December 31, 1907.

Solution.

THE PATENT SPECIALTY CO.—JOURNAL ENTRIES

July 1, 1907

The Patent Specialty Co., incorporated under the laws of the State of New York, with an authorized capital of One hundred thousand dollars ($100,000), divided into......shares of the par value of..........dollars ($........), each.

Date of incorporation........................1907			
Date of organization..................July 1, 1907			
Subscription,	Dr.	$50,000.00	
To Subscribed Capital Stock,	Cr.		$50,000.00
Cash,	Dr.	5,000.00	
To Subscription,	Cr.		5,000.00
......shares of the capital Stock subscribed to per subscription list accepted by the directors vide minute no......for which certificates have been issued, and 10% of amount subscribed, called and paid.			
Organization expenses,	Dr.	500.00	
To Cash,	Cr.		500.00
Legal, and other incorporation expenses paid.			

August 20, 1907

Patent,	Dr.	50,000.00	
To Vendor,	Cr.		50,000.00
For patent covering novelty purchased by the directors in accordance with the terms of Bill of Sale dated......and entered on minute book, vide minute no..........			
Vendor,	Dr.	50,000.00	
To Subscribed Capital Stock,	Cr.		25,000.00
" Cash,	"		2,000.00
" Note Payable,	"		23,000.00

In settlement of amount due him on account of purchase of above patent there have been issued to him........shares of the capital stock of this company, full paid and non-assessable. Cash to the amount of $2,000 has also been paid him and a note for $23,000 payable in one month from date hereof, and bearing interest at 6% per annum has been executed and delivered.

	August 27, 1907		
Real Estate,	Dr.	$5,000.00	
To Surplus,	Cr.		$5,000.00
Value of lot donated by the Village Board of Trade in consideration of agreement to erect and equip a plant at cost of not less than $25,000 which agreement has been executed by the directors and deed delivered.			
	September 13, 1907		
Cash,	Dr.	35,000.00	
To Subscription,	Cr.		35,000.00
In payment of a call of 70% of amount subscribed made by the directors vide minute no...........			
	September 20, 1907		
Note Payable,	Dr.	23,000.00	
Interest on Note,	"	115.00	
To Cash,	Cr.		23,115.00
In payment of Note issued August 20, 1907, with interest at 6% per annum.			
	December 31, 1907		
Plant Construction,	Dr.	26,250.00	
To Contractors,	Cr.		26,250.00
For 70% of contract price, $35,000, of plant and equipment to be erected, which proportion is complete.			
Cash,	Dr.	2,725.00	
Royalties accrued,	"	190.00	
To Royalties,	Cr.		2,915.00
Royalties received and accrued.			
Contractors,	Dr.	14,000.00	
Sundry expenses,	"	2,250.00	
To Cash,	Cr.		16,250.00
Payments to contractors, and for salaries, interest, and insurance, etc.			
Sundry expenses,	Dr.	250.00	
To Accrued Expenses,	Cr.		250.00
Salaries, interest, insurance, etc., accrued but not paid.			
Patent,	Dr.	115.00	
To Interest on Note,	Cr.		115.00
Interest paid on note dated August 20, 1907, added to purchase price.			
Royalties,	Dr.	2,915.00	
To Patent,	Cr.		2,915.00

Royalties accrued on Patent purchased deducted from purchase price.

Organization expenses,	Dr.	$2,500.00	
To Sundry Expenses,	Cr.		$2,500.00

Interest, insurance, salaries, etc., incurred to date.

THE PATENT SPECIALTY CO.—BALANCE SHEET, DECEMBER 31, 1907

ASSETS

Real Estate	$5,000.00
Plant Construction, value of work completed (75% of contract price)	26,250.00
Patent	47,200.00
Organization Expenses	3,000.00
Cash on hand and in bank	860.00
Royalties accrued	190.00
	$82,500.00

LIABILITIES

Sundry accrued expenses, salaries, insurance, etc.		$250.00
Contractors, amount due them		12,250.00
		$12,500.00
Capital Stock, authorized	$100,000.00	
Less Stock unissued	25,000.00	
Subscribed Capital	75,000.00	
Less amount uncalled	10,000.00	
Outstanding Stock		65,000.00
Surplus		5,000.00
		$82,500.00

Problem 27.

(New York Examination, June, 1910.)

There were purchased December 31, 1907, $100,000 of Brownsville 4½'s for $103,394.43 ex. interest.

On June 30, 1909, half of the bonds were sold for $52,418.55 ex. interest.

Given that the bonds are semi-annual and that the price paid is such as to net the investor the nominal rate of 4% per annum, that is 2% semi-annually, determine the profit made from the sale and the interest revenue for the two years ended December 31, 1909. Give an analysis of the Bond Ledger account as it would appear at the close of business December 31, 1909.

Solution.

BOND LEDGER

BOND LEDGER ACCOUNT

$100,000 Brownsville 4½'s of to net 4% interest

Date	Description	Dr.	Cr.	Balance
1907—Dec. 31	Purchased of X & Co.	$103,394.43		
1908—June 30	Amortization		$182.11	$103,212.32
Dec. 31	"		185.75	103,026.57
1909—June 30	"		189.47	102,837.10
" "	Sold to Y & Co.		51,418.55	51,418.55
Dec. 31	Amortization		96.63	51,321.92

GENERAL LEDGER

DR. BOND SALES CR.

Date	Description	Amount	Date	Description	Amount
1909 June 30	Brownsville 4½'s	$51,418.55	1909 June 30	Proceeds $50,000 104.8371 %	$52,418.55
" "	Profit & Loss a/c	1,000.00			
		$52,418.55			$52,418.55

Interest Account

1908			1908			
June 30	To bond amortization	$182.11	June 30	By cash	$2,250.00
Dec. 31	" " "	185.75	Dec. 31	" "	2,250.00
1909			1909		
June 30	" " "	189.47	June 30	" "	2,250.00
Dec. 31	" " "	96.63	Dec. 31	" "	1,125.00
" "	" Profit & Loss a/c	7,221.04			
		$7,875.00			$7,875.00

Profit and Loss Account

			1909		
			June 30	By bond sale	$1,000.00
			Dec. 31	" interest	7,221.04
					$8,221.04

Analytical Single Column Schedule

Bond purchase,		$103,394.43
Income rate, 2%	+	2,067.89
		105,462.32
Cash rate, 2¼%	−	2,250.00
		103,212.32
	+	2,064.25
		105,276.57
	−	2,250.00
		103,026.57
	+	2,060.53
		105,087.10
	−	2,250.00
		102,837.10
Bond sale, 50%	−	51,418.55
		51,418.55
	+	1,028.37
		52,446.92
	−	1,125.00
Balance, Dec. 31, 1909	=	$51,321.92

Problem 28.

(New York Examination, June, 1910.)

THE RICHARDSON ENGRAVING AND PRINTING COMPANY

The Richardson Engraving and Printing Company, a corporation having an authorized capital stock of $50,000.00, owned by William Richardson, $10,000.00; Silas Johnson, $15,000.00, and Thomas Acton, $25,000.00.

The plant was destroyed by fire September 23, 1908. All the books and records were saved except the sales records, which were not written up for September. The insurance companies paid $28,000.00 on the plant and $7,000.00 on the stock, which was distributed to the stockholders as received in proportion to their holdings. Cash was received from September sales amounting to $13,500.00. On September 30, the trial balance disclosed the following condition:

Capital stock		$50,000.00
Plant	$30,000.00	
Stock on hand June 1, 1908	8,750.00	
Accounts receivable	19,640.00	
Accounts payable		12,590.00
Reserve for bad debts		1,250.00
Insurance adjustment		28,000.00
Cash	3,900.00	
Engraving		77,600.00
Printing		99,350.00
September sales, not allocated		24,175.00
Merchandise purchases	58,800.00	
Wages	130,180.00	
Rent	1,800.00	
Salaries	5,750.00	
Profit and loss surplus		855.00
William Richardson	7,000.00	
Silas Johnson	10,500.00	
Thomas Acton	17,500.00	
	$293,820.00	$293,820.00

The accounts receivable realized $18,320.00, and the liquidation expenses were $1,850.00. The stockholders turned in their stock for cancellation and received their proportionate amount of cash. Prepare journal entries closing the books of the corporation and a profit and loss account.

Solution.

THE RICHARDSON ENGRAVING CO.—JOURNAL ENTRIES TO CLOSE BOOKS
SEPTEMBER 30, 1908

Insurance Adjustment,	Dr.	$30,000.00	
To Plant,	Cr.		$30,000.00
Book value of plant destroyed by fire September 23, 1908.			
Cash,	Dr.	18,320.00	
To Accounts Receivable,	Cr.		18,320.00

Amount collected from debtors on general book accounts			
Accounts Payable,	Dr.	$12,590.00	
To Cash,	Cr.		$12,590.00
Settlements made with creditors on general book accounts			
Reserve for bad debts,	Dr.	1,250.00	
To Accounts Receivable,	Cr.		1,250.00
Transfer of amount reserved to offset loss on realization.			
Realization and Liquidation account,	Dr.	1,920.00	
To Accounts Receivable,	Cr.		70.00
Net loss on realization of accounts.			
To Cash,	"		1,850.00
Expense of liquidation.			
Engraving,	Dr.	77,600.00	
Printing,	"	99,350.00	
September Sales not allocated,	"	23,175.00	
To Profit and Loss Account,	Cr.		200,125.00
To transfer sources of income.			
Profit and Loss Account,	Dr.	204,280.00	
To Stock on hand, June 1, 1908,	Cr.		8,750.00
" Power,	"		57,800.00
" Wages,	"		130,180.00
" Rent,	"		1,800.00
" Salaries,	"		5,750.00
To transfer expense of the business.			
Profit and Loss Acct.,	Dr.	3,920.00	
To Insurance Adjustment,	Cr.		2,000.00
" Realization and Liquidation Account,	Cr.		1,920.00
To transfer additional losses and expenses.			
Profit and Loss Surplus,	Dr.	855.00	
To Profit and Loss Acct.,	Cr.		855.00
To transfer balance of undivided profits.			
Capital Stock,	Dr.	50,000.00	
To Wm. Richardson,	Cr.		10,000.00
" Silas Johnson,	"		15,000.00
" Thomas Acton,	"		25,000.00
For — shares of the Capital Stock of this company held by them and now returned for cancellation.			
Wm. Richardson,	Dr.	1,444.00	
Silas Johnson,	"	2,166.00	
Thomas Acton,	"	3,610.00	
To Profit and Loss Acct.,	Cr.		7,220.00
For divisions of net loss in proportion to their holdings.			

Wm. Richardson,	Dr.	$1,556.00	
Silas Johnson,	"	2,334.00	
Thomas Acton,	"	3,890.00	
To Cash,	Cr.		$7,780.00
Final distribution of cash.			

THE RICHARDSON ENGRAVING AND PRINTING CO.—PROFIT AND LOSS ACCOUNT SEPTEMBER 1 TO 23, 1908

Gross Earnings, June 1 to September 23, 1908.		
Engraving	$77,600.00	
Printing	99,350.00	
September Sales, not allocated	23,175.00	$200,125.00
Deduct expenses of operating:		
Inventory June 1, 1908	8,750.00	
Wages	130,180.00	
Power	57,800.00	
Rent	1,800.00	
Salaries	5,750.00	204,280.00
Loss on operating		$4,155.00
Add loss on fire adjustment:		
Book value of plant destroyed	$30,000.00	
Insurance received	28,000.00	2,000.00
Add loss and expense of liquidation:		
Book value of accounts receivable	$19,640.00	
Less reserve for bad accounts	1,250.00	
	$18,390.00	
Less amount realized	18,320.00	
Loss on realization	$70.00	
Expense of realization	1,850.00	1,920.00
		$8,075.00
Deduct Profit and Loss Surplus		855.00
		$7,220.00
Divided as follows:		
Wm. Richardson, one-fifth	$1,444.00	
Silas Johnson, three-tenths	2,166.00	
Thomas Acton, one-half	3,610.00	$7,220.00

Problem 29.

(Intermediate Chartered Accountants' Examination, June, 1910.)

3. X., Y., and Z., are in partnership, and on January 1, 1909, their respective capitals were £4,000, £2,780, and £1,590. Y. is entitled to a salary of £250 and Z. to one of £200 per annum, payable before division of profits. Interest is allowed on capital at 5 per cent. per annum and is not charged on drawings. Of the net divisible profits X. is entitled to 40 per cent. of the £1,000, Y. to 35 per cent., and Z. to 25 per cent.; over that amount profits are shared equally. The profit for the year ended December 31, 1909, after debiting partners' salaries, but before charging interest on capital, was £2,317, and the partners had drawn £800 each on account of salaries, interest and profits. Prepare the closing entries of the Profit and Loss Account and the Partners' Accounts for the year.

Solution.

	Dr.	Cr.
Profit and Loss	£418 s.10 d.0	
To X., Drawing Account		£200 s. 0 d.0
Y., " "		139 0 0
Z., " "		79 10 0
for interest allowed on capital at the rate of 5 per cent. per annum, according to partnership agreement, dated		

	Dr.	Cr.
Profit and Loss	£1,898 s.10 d.0	
To X., Drawing Account		£699 s.10 d.0
Y., " "		649 10 0
Z., " "		549 10 0
for allocation of profits according to partnership agreement, viz.: Of the net divisible profits, first £1,000 0 0; X. receives 40%, Y. 35%, and Z. 25%, the balance is divided share and share alike.		

	Dr.	Cr.
X., Drawing Account	£99 s.10 d.0	
Y., " "	238 10 0	
Z., " "	28 0 0	
To X., Capital Account		£99 s.10 d.0
Y., " "		238 10 0
Z., " "		28 0 0
Transfer of accounts.		

PROFIT AND LOSS STATEMENT

Balance brought forward from former sections		£2,767 s.0 d.0
Deduct:		
Partners' salaries:		
Y	£250 s.0 d.0	
Z	200 0 0	450 0 0
Balance		£2,317 s.0 d.0

Deduct:			
Interest on Capital,			
X		£200 s.0 d.0	
Y		139 0 0	
Z		79 10 0	£418 s.10 d.0
Balance			£1,898 s.10 d.0
Allocation of balance (net profits):			
X., 40% of £1,000		£400 s.0 d.0	
1/3 of £898 s.10 d.0		299 10 0	
		£699 s.10 d.0	
Y., 35% of £1,000	£350 s.0 d.0		
1/3 of £898 s.10 d.0	299 10 0	649 10 0	
Z., 25% of £1,000	£250 s.0 d.0		
1/3 of £898 s.10 d.0	299 10 0	549 10 0	1,898 10 0
			0 0 0

X.'s DRAWING ACCOUNT

	£ s. d.		£ s. d.
Drawings	800 0 0	Interest on Capital	200 0 0
Capital Account (Transfer)	99 10 0	Profit	699 10 0
	£899 10 0		£899 10 0

X.'s CAPITAL ACCOUNT

	£ s. d.		£ s. d.
Balance	4,099 10 0	Balance	4,000 0 0
		Transfer from D/A	99 10 0
	£4,099 10 0		£4,099 10 0
		Balance	£4,099 10 0

Y.'s DRAWING ACCOUNT

	£ s. d.		£ s. d.
Drawings	800 0 0	Salary Allowance	250 0 0
Capital Account		Interest on Capital	139 0 0
(Transfer)	238 10 0	Profit	649 10 0
	£1,038 10 0		£1,038 10 0

Y.'s CAPITAL ACCOUNT

	£ s. d.		£ s. d.
Balance	3,018 10 0	Balance	2,780 0 0
		Transfer from D/A	238 10 0
	£3,018 10 0		£3,018 10 0
		Balance	£3,018 10 0

Z.'s DRAWING ACCOUNT

	£	s.	d.		£	s.	d.
Drawings..........	800	0	0	Salary.............	200	0	0
Capital Account (Transfer)........	29	0	0	Interest on Capital..	79	10	0
				Profit..............	549	10	0
	£829	0	0		£829	0	0

Z.'s CAPITAL ACCOUNT

	£	s.	d.		£	s.	d.
Balance............	1,619	0	0	Balance............	1,590	0	0
				Transfer from D/A..	29	0	0
	£1,619	0	0		£1,619	0	0
				Balance..........	£1,619	0	0

Problem 30.

(Virginia Examination, November, 1910.)

The Gunsaulus Corporation, organized under a general charter of the State ~~of Virginia~~, operates coal mines, saw mills, a private railroad and have their own timber holdings.

All the accounts are kept in one mammoth ledger, with usual books of original entry, at the general office ~~in Norfolk~~. They engage the services of yourself to audit the books for the past year (ending June 30, 1909). The accounts in the ledger have been forwarded back and forth to economize stationery and the trial balance is as follows:

Account	Debit	Credit
Plant and Equipment—Mine A	$31,955.26	
New Plant—Mine 7	62,173.27	
Stumpage—cut for saw mill	7,524.26	
Capital Stock		$581,500.00
Betterment to Mines 3 and 4	2,783.42	
Local purchase logs	51.66	
Saw mill repairs	1,360.31	
Cash	7,436.05	
Development—Mine 1	3,822.37	
Timber and land	240,305.26	
Planing mill repairs	341.43	
Accounts Receivable	76,421.91	
Mine engineering tools	225.00	
Petty Cash—mines	750.00	
Lumber—outside purchase	79.20	
Lighterage on Lumber	57.95	
Mine administration, salaries and supplies	2,195.22	
Petty expenses at mines	1,649.28	
Tenant houses at mines	2,117.22	
Lumber, logs, etc., on hand	50,853.60	
Saw mill payroll	4,141.41	
Planing mill payroll	2,421.95	
Commissary merchandise	8,642.58	
Feed and labor, mines stables	925.75	
Electric repairs at mines	467.97	
Commissary payroll	726.65	
Logging payroll	200.00	
Unearned Insurance Premiums	3,918.49	
Mine cars	6,139.78	
Lath mill payroll	249.65	
Electric plant—mines	3,190.00	
Interest on loans covering mine plant construction	7,226.73	
Mines warehouse stock	1,743.22	

Account	Debit	Credit
Lath mill repairs	$7.27	
Railroad equipment	74,710.38	
Railroad payroll and expense	2,241.86	
Camp equipment	22,192.34	
Camp payroll	1,549.75	
Yard and shed repairs	112.10	
Logging railroad trackage	47,769.13	
Salaries	1,021.67	
Unclaimed miners' wages		$246.17
Coal sales		57,280.78
Building material on hand at mines	810.75	
Interest on funds to develop No. 1 mine	$240.00	
Mine office furniture and fixtures	1,459.17	
Mine officers' house furnishing	513.29	
Mine railway trackage and switches	3,916.82	
Telephone Line—mill to woods	436.56	
Freight on logs to saw mill	1,614.40	
Camp boarding house equipment	1,500.00	
Interest and discount	422.09	
Mine store expense and labor	2,472.83	
Mine store freight	472.98	
Saw mill machine shop	2,328.53	
Outside investments	1,949.90	
Advanced to new corporation	1,373.27	
Mill plant	324,982.92	
Sales of lumber		$28,033.11
Sales of lath and shingles		2,392.45
Insurance—Mill	85.30	
Operation Chicago office	1,000.00	
Allowances and discount—Coal shipments	637.40	
Repairs and expense, mines stables	124.22	
Mine office, salaries and supplies	1,562.23	
Mine engineering, salaries and supplies	625.00	
Traveling expenses, mines manager	221.67	
Interest—current loans at mines	125.00	
General expense	853.80	
Discount on lumber sold	1,931.60	
Bills Payable		172,667.50
Accounts Payable, audited		24,287.03
Special loan		35,000.00
Taxes—mines	178.53	
Insurance—mines	1,271.11	
Legal Expense—mines	785.00	
Royalty on coal mined	4,989.77	
Mining labor	29,871.23	
Surplus		195,764.45
Sales of wood		186.00

Account	Debit	Credit
Rent of dwelling and miscellaneeous income.		$278.00
Yardage and tunnel extension at mines......	$2,743.22	
Delivery of coal to tipple	3,571.28	
Maintenance of Way—mines	710.11	
Maintenance of Air—mines	739.10	
Props, ties and caps	497.17	
Mine foreman, salary	800.00	
Maintenance of mine cars	209.38	
Mine machinists' and engineers' wages	1,378.78	
Smithing—mines	672.10	
Fuel—mines power house	297.51	
Removal of slate...........................	551.98	
Deadwork at mines	47.21	
Electric supplies at mines	2,488.55	
Insurance during construction of mine plant.	937.97	
Norfolk & Western Ry. claims at mines	71.59	
Repairs to miners' houses	171.19	
Legal expense—obtaining right of way to mines	342.68	
Live stock at mines	3,850.00	
Taxes during construction of mines plant ...	313.71	
Mine commissary merchandise	8,427.60	
Rental from miners' houses		$1,572.27
Cartage and sale of coal to tenants		70.09
	$1,099,277.85	$1,099,277.85

They have agreed to a plan whereby the coal mine operation will be taken over by a new corporation and therefore ask that you separate the lumber and coal accounts, make up a separate set of statements to cover each business (balance sheet, and statement of operation, with supporting schedules showing the profit and loss account and surplus account in detail)—the capital stock to stand as part of the lumber accounts.

You find as follows:

That at the beginning of the fiscal year the capital stock issued and paid for amounted to $575,000.00, John Johnson and Henry Mears, having performed their duties in a way acceptable to the officials, were allowed to purchase for cash 40 shares and 20 shares each of the capital stock respectively, at $125.00 per share (par $100.00), and that the $25.00 premium per share had been credited to Surplus Account.

Bills Receivable account was balanced and closed but in going through the accounts you found Bills Receivable, for lumber accounts, renewed from time to time amounting to $2,791.17, which certain customers had not yet paid.

Mine No. 1 is in a state of development and has not been as yet operated.

In Accounts Receivable $15,180.92 cover coal shipments.

In Bills Payable $50,725.00 cover mine investments.

Insurance premiums not matured $726.10 on mine policies.

Taxes paid in advance $78.53.

Of the surplus, before closing the accounts, $98,958.44 arises from mine operation prior to year ending June 30, 1909.

$12,790.79 of Accounts Payable Audited cover mine bills.

Close their books, showing necessary journal entries to adjust accounts.

The Flat Top Fuel Corporation secures a charter and capitalizes with an issue of $250,000.00 preferred stock and $200,000.00 common stock. The preferred stock is subscribed as follows:

The Gunsaulus Corporation $150,000.00

(They to transfer all assets and liabilities, as shown by your statement covering the mines property, to the Flat Top Fuel Corporation, any equity to apply as a payment on the subscription, balance to be paid on call.)

A. Murphy $50,000.00
($25,000.00 paid in cash, balance on call.)

Andrew White $50,000.00
($25,000.00 paid in cash, balance on call.)

Show proper entries to make the transfer in the books of the Gunsaulus Corporation and a balance sheet after doing so; also, entries to open books of Flat Top Fuel Corporation and balance sheet after doing so.

The General Manufacturing Co., Inc., capitalized at $30,000.00 of which the Gunsaulus Corporation owns 50 per cent, the Rock Lumber Company 25 per cent and the Severn River Lumber Company 25 per cent, agree to take over the business of each of the three concerns named for the purpose of increasing the total output and adding new products. It being agreed that any difference in holdings appearing in the consolidated Balance Sheet is to be adjusted later.

The Gunsaulus Corporation agrees to dispose of its plant for $250,000.00; reserve its timber holdings and $8,000.00 of Accounts Receivable not considered collectible; also assume all liabilities excepting such Accounts Payable Audited as remain unpaid. The other companies submit the following balance sheets:

ROCK LUMBER COMPANY

Account	Debit	Credit
Cash on hand and in Bank	$6,410.81	
Bills Receivable	2,131.55	
Bills Payable		$77,191.94
Lumber, Logs, etc.	52,176.59	
Unexpired Insurance Premiums	1,317.58	
Mill Supplies and Extras	819.26	
Teams	2,859.65	

Account	Debit	Credit
Standing Timber and Lands	$300,000.00	
Accounts Payable		$15,197.94
Surplus		401,321.76
Mill Plant	60,500.00	
Accounts Receivable	67,496.20	
	$493,711.64	$493,711.64

SEVERN RIVER LUMBER COMPANY

Account	Debit	Credit
Cash	$438.72	
Bills Receivable	6,008.91	
Lumber, Logs, etc.	97,303.43	
Unexpired Insurance Premiums	417.93	
Mill Supplies and extras	742.59	
Teams	62.50	
Bills Payable		$39,604.38
Standing timber and lands	42,811.83	
Tugboat	2,019.39	
Outside Investments	6,300.00	
Mill Plant	30,000.00	
Accounts Payable		7,912.84
Surplus		172,093.42
Accounts Receivable	33,505.34	
	$219,610.64	$219,610.64

None of the capital stock of the new corporation has been paid for. From the figures you have at your disposal, make a balance sheet showing the interests of each company separately and items of the same class in comparison with each other.

Draft a balance sheet for the Gunsaulus Corporation to cover its present condition.

Solution.

THE GUNSAULUS CORPORATION
OPERATING STATEMENT—MINES

MINING

Mining Labor.........		$29,871.23	COST OF MINING CARRIED DOWN TO TRADING SECTION..		$59,715.52
Machinists and Engineer..............	$1,378.78				
Smithing............	672.10				
Foreman............	800.00	2,850.88			
Fuel................	297.51				
Electric Supplies.....	2,488.55				
Electric Repairs......	467.97	3,254.03			
Props, Ties and Cars..	497.17				
Deadwork...........	47.21				
MAINTENANCE:					
Of Air............	739.10				
Of Way...........	710.11				
Of Mine Cars......	209.38	2,202.97			
Removal of Slate.....	551.98				
Delivery of Tipple....	3,571.28	4,123.26			
Royalty on Coal Mines		4,989.77			
COMMISSARY AND STABLES:					
Commissary Merchandise.........	8,427.60				
Freight to Store....	472.98				
Store Expense and Labor..........	2,472.83				
Feed and Labor Stables.............	925.75				
Repairs and Expense—Stables...	124.22	12,423.38			
		$59,715.52			$59,715.52

TRADING

Cost of Coal Mined..		$59,715.52	SALES:		
Administrative Salaries and Supplies...	$2,195.22		Coal..............	$57,280.78	
Traveling Expenses...	221.67	2,416.89	Less Allowances, etc.	637.40	$56,643.38
			Coal to Tenants and Cartage....		70.09
			GROSS LOSS CARRIED DOWN TO PROFIT & LOSS SECTION.....		5,418.94
		$62,132.41			$62,132.41

PROFIT AND LOSS

Gross Loss on Trading.		$5,418.94	Rental from Miners' Houses...........	$1,572.27	
Salaries and Supplies..	$1,562.23		Less Repairs.........	171.19	$1,401.08
Taxes...............	100.00		NET LOSS CHARGEABLE TO SURPLUS..		9,510.48
Insurance...........	1,271.11				
Petty Expenses.......	1,649.28				
Interest............	125.00				
Legal Expense.......	785.00	5,492.62			
		$10,911.56			$10,911.56

THE GUNSAULUS CORPORATION BALANCE SHEET—MINES

ASSETS

FLOATING:		
Petty Cash	$750.00	
Accounts Receivable	15,180.92	
Advances to New Corporation	1,373.27	
Norfolk & Western Claims	71.59	$17,375.78
FIXED:		
Plant and Equipment—Mine A		31,955.26
New Plant—Mine 7	$62,173.27	
Items Chargeable to Construction*		
Interest on Loans	7,226.73	
Insurance	937.97	
Taxes	313.71	
Right of Way—Legal	342.68	70,994.36
Cars	$6,139.78	
Railway Track and Switches	3,916.82	
Yardage and Tunnel Extension	2,743.22	12,799.82

LIABILITIES

FLOATING:		
Bills Payable	$50,725.00	
Accounts Payable	12,790.79	
Unclaimed Miners' Wages	246.17	$63,761.96
Advances made by the Lumber Department for Benefit of Mining Department (Per Contra)		
Insurance Premiums	$726.10	
Advances to New Corporation	1,373.27	2,099.37
CAPITAL:		
Surplus at beginning of period	$98,958.44	
Deduct: Net Loss for period	9,510.48	89,447.96

* Ordinarily these items would not be itemised on the balance sheet, but are given here for the sake of greater clearness with respect to this particular problem.

THE GUNSAULUS CORPORATION BALANCE SHEET—MINES—*Continued*

ASSETS			LIABILITIES
Electric Plant		$3,190.00	
Betterment—Mines 3 and 4		2,783.42	
Development—Mine 1	$3,822.37		
Items Chargeable to Development*			
Engineering Tools	225.00		
Engineering Salaries and Supplies	625.00		
Building Materials	810.75		
Interest on Loans	240.00	5,723.12	
MISCELLANEOUS:			
Warehouse Stock	1,743.22		
Tenant Houses	2,117.22		
Live Stock	3,850.00	7,710.44	
Office Furniture and Fixtures	1,459.17		
Officers House Furnishing	513.29	1,972.46	
DEFERRED CHARGES:			
Insurance Unexpired	$726.10		
Taxes Prepaid	78.53	804.63	
		$155,309.29	$155,309.29

* Ordinarily these items would not be itemized upon the balance sheet, but are given here for the sake of greater clearness with respect to this particular problem.

THE GUNSAULUS CORPORATION OPERATING STATEMENT—LUMBER

LOGGING AND MILLING

Logging:				Cost of Lumber Produced Transferred to Trading Section.....	$44,373.93
Stumpage............		$7,524.26			
Logging Pay Roll......	$200.00				
Camp Pay Roll........	1,549.75				
Commissary Mdse.....	8,642.58				
Commissary Pay Roll..	726.65	11,118.98			
R.R. Pay Roll and Exp.	$2,241.86				
Freight Logs to Saw Mill...............	1,614.40	3,856.26			
Cost of Logs laid down at Mill.............			$22,499.50		
Milling:					
Logs on hand at beginning*.............	$13,215.45				
Local Purchases.......	51.66		13,267.11		
Cost of Logs used during period..........			$35,766.61		
Saw Mill Pay Roll.....	4,141.41				
Saw Mill Repairs......	1,360.31	$5,501.72			
Lath Mill Pay Roll....	249.65				
Lath Mill Repairs.....	7.27	256.92			
Planing Mill Pay Roll..	2,421.95				
Planing Mill Repairs...	341.43	2,763.38	8,522.02		
Insurance on Mill......			85.30		
			$44,373.93		$44,373.93

* We have "split" the inventory into part logs and part milled lumber, for the sake of completeness. No inventory is presumed to be on hand at close.

TRADING

Milled Lumber on hand:			SALES:		
At beginning*	$37,638.15		Lumber $28,033.11		
Cost of Lumber Milled	44,373.93	$82,012.08	Less Discount 1,931.60	$26,101.51	
Outside Purchases	79.20		Lath and Shingles	2,392.45	
Lighterage	57.95	137.15	Wood	186.00	
Yard and Shed Repairs		112.10	Total Net Sales		$28,679.96
			GROSS LOSS TRANSFERRED TO PROFIT AND LOSS		53,581.37
		$82,261.33			$82,261.33

PROFIT AND LOSS

Gross Loss on Trading		$53,581.37	MISCELLANEOUS INCOME:	
Chicago Office	$1,000.00		Rent of Dwelling, etc.	$278.00
Salaries	1,021.67		NET LOSS CHARGEABLE TO SURPLUS	56,600.93
Interest and Discount	422.09			
General Expenses	853.80	3,297.56		
		$56,878.93		$56,878.93

* We have "split" the inventory into part logs and part milled lumber, for the sake of completeness. No inventory is presumed to be on hand at close.

THE GUNSAULUS CORPORATION BALANCE SHEET—LUMBER

ASSETS

Floating:		
Cash	$7,436.05	
Bills Receivable	2,791.17	
Accounts Receivable	61,240.99	$71,468.21
Fixed:		
Mill Plant		324,982.92
Railroad Equipment	74,710.38	
Railroad Trackage	47,769.13	122,479.51
Camp Equipment	22,192.34	
Camp B. H. Equipment	1,500.00	23,692.34
Saw Mill Machine Shop		2,328.53
Telephone Line		436.56
Investments:		
Timber and Land		240,305.26
Outside Investments		1,949.90
Deferred Charges:		
Due from Mining Department		2,099.37
Insurance Unexpired		3,192.39
		$792,934.99

LIABILITIES

Floating:		
Bills Payable	$121,942.50	
Accounts Payable	11,496.24	$133,438.74
Fixed:		
Special Loan		35,000.00
Capital:		
Capital Stock		581,500.00
Surplus at beginning of year	$96,806.01	
Add—Unpaid Notes Receivable	2,791.17	
Corrected Surplus at beginning	99,597.18	
Deduct—Net Loss for period	56,600.93	42,996.25
		$792,934.99

The balance sheet of the Gunsaulus Corporation after its transfer of its mines property to the Flat Top Fuel Corporation would be the same as the "Lumber Balance Sheet" given above.

THE GUNSAULUS CORPORATION

MINES DEPARTMENT BOOKS

JOURNAL ENTRIES

The Flat Top Fuel Corporation, chartered under the laws of the State of Virginia, has this day purchased, taken over and assumed all Assets and Liabilities of the "Mines Department" of this (The Gunsaulus Corporation) and the same are hereby transferred, set over and assigned to them on the books of this company, as by the following entries will more fully appear, in consideration of the subscription to fifteen hundred shares of the preferred capital stock of the said The Flat Top Fuel Corporation of the par value of one hundred dollars each; the equity appearing in the entries below being applied as part payment on account of the Gunsaulus Corporation's subscription, the balance to be paid on call.

Flat Top Fuel Corporation....................	$155,309.29	
To Sundry Assets (as per Mines Balance Sheet*) transferred.....................		$155,309.29
Sundry Liabilities (as per Mines Balance Sheet*) assumed..............................	65,861.33	
To Flat Top Fuel Corporation..............		65,861.33
Surplus (this equity being applied as part payment on account of shares)...............	89,447.96	
To Flat Top Fuel Corporation..............		89,447.96

The Balance Sheet of the Gunsaulus Corporation after foregoing entries would comprise the lumber accounts only and would be the same as "Lumber Balance Sheet" which is given on page 122.

* It is not necessary to state items in detail here for the reason that pages 120 and 121 itemize the Mines Balance Sheet.

THE FLAT TOP FUEL CORPORATION JOURNAL ENTRIES

The Flat Top Fuel Corporation

Chartered Under The Laws Of The State Of Virginia
Having
An Authorized Capital Stock
of
$450,000.00
Divided into $250,000.00 Preferred,
And $200,000.00 Common,
All Shares Being
Of The Par Value of $100.00 Each

Gunsaulus Corporation Subscription Account...	$150,000.00	
1,500 Shares Preferred at par		
A. Murphy Subscription Account.............	50,000.00	
500 Shares Preferred at par		
Andrew White Subscription Account..........	50,000.00	
500 Shares Preferred at par		
To capital Stock Preferred Account.......		$250,000.00
2,500 Shares Subscribed for as above		

Cash....................................	50,000.00	
To A. Murphy Subscription Account.........		25,000.00
To Andrew White Subscription Account......		25,000.00
Being the agreed payment to be made at once, balance subject to call.		

Sundry Assets (as per "Mines Balance Sheet" of the Gunsaulus Corporation*) Transferred..	155,309.29	
To Sundry Liabilities (as per "Mines Balance Sheet" of same Company*) Assumed..............................		65,861.33
To Gunsaulus Corporation Subscription Account............................		89,447.96
Being the transfer to this (The Flat Top Fuel Corporation) company of all the assets and liabilities of the "Mines Department" of the Gunsaulus Corporation, as by reference to the formal agreement and transfer will more fully appear, the equity (Surplus) of such assets and liabilities to be applied as part payment for the subscription of the said Gunsaulus Corporation to the preferred shares of this company—balances subject to call.		

* As these items are fully detailed on pages 120 and 121 we have deemed it unnecessary to repeat in detail in these entries.

THE FLAT TOP FUEL CORPORATION BALANCE SHEET

ASSETS			LIABILITIES	
Cash		$50,000.00	Sundry Liabilities (as per "Mines Balance Sheet"*)	$65,681.33
Sundry Assets (as per "Mines Balance Sheet"*)		155,309.29	CAPITAL STOCK:	
SUBSCRIPTION ACCOUNTS:			Preferred	250,000.00
Gunsaulus Corporation	$60,552.04		Common (none issued)	
A. Murphy	25,000.00			
Andrew White	25,000.00	110,552.04		
		$315,861.33		$315,861.33

* Not considered necessary to itemise these again—pages 120 and 121.

Problem 31.

(Chartered Accountants' Examination, December, 1910.)

6. The trial balance of the London office books of the "A" Rubber Company is as follows on 31st December, 1909:

	£ s. d.	£ s. d.
Estate Purchase	3,000 0 0	
Estate Development	8,000 0 0	
Estate Produce Stock, 1st January, 1909	600 0 0	
Cash at Bank, London	800 0 0	
Estate Manager, 1st January, 1909	500 0 8	
Remittance to Estate Manager	1,000 0 0	
London Office Expenses	400 0 0	
Share Capital		12,000 0 0
Creditors		1,900 0 0
Profit and Loss Balance		400 0 8
	£14,300 0 8	£14,300 0 8

After taking out the above balances the accounts to 31st December, 1909, are received from the estate manager as follows (the dollar to be taken at 2s. 4d.):

Balance, 1st January, 1909	$4,286	
Remittance from London	8,600	
Rebates	131	
Sale of Produce	2,000	
Profit on Rice	249	
Expenditure on Development		$9,000
Expenditure on Purchase of New Land		2,800
Expenditure on Upkeep of Estate		1,646
Balance carried forward		1,820
	$15,266	$15,266

The produce unsold at 31st December, 1909, was valued by the manager at $5,500.

You are required to construct the revenue account and balance sheet for presentation to the shareholders.

Solution.

REVENUE ACCOUNT.

	£ s. d.	£ s. d.	£ s. d.
Sales of Produce		233 6 8	
Profit on Rice		29 1 0	
Rebates		15 5 8	
			277 13 4
Inventory Adjustment:			
Stock, January 1, 1909	600 0 0		
Stock, December 31, 1909	641 13 4		
Net increase			41 13 4
Total			£319 6 8
Deduct—Cost of Maintenance of Estate			192 0 8
Balance carried down			£127 6 0
Add—Profit on Exchange			3 6 8
Total			£130 12 8
London Office Expenses	£400 0 0		
Less—Returns as above	130 12 8		
Net Loss for the period			269 7 4
			£400 0 0

"A." RUBBER COMPANY, LIMITED.

Balance Sheet as at December 31, 1909.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
			Creditors			1,900 0 0
Purchase of Estate	3,000 0 0					
New Acquisition	326 13 4		*Capital and Surplus.*			
		3,326 13 4				
Development		9,050 0 0	Share Capital		12,000	
Branch Account (Due from Manager)		212 6 8				
Produce Inventory		641 13 4	Surplus from Last Year	400 0 8		
Cash at London Bank		800 0 0	Less Current Loss	269 7 4		
					130 13 4	
						12,130 13 4
		£14,030 13 4				£14,030 13 4

BRANCH ACCOUNT.

Dr.							Cr.
1909.		Dollars.	Sterling.	1909.		Dollars.	Sterling.
January 1.	Balance	4,286.00	500 0 8	January 1.	Expenditure on Development	9,000.00	1,050 0 0
	Remittances	8,600.00	1,000 0 0		Purchases of New Land	2,800.00	326 13 4
	Rebates	131.00	15 5 8		Expenditure on Maintenance	1,646.00	192 0 8
	Sales of Produce......	2,000.00	233 6 8	December 31.	Balance............	1,820.00	212 6 8
	Profit on Rice.........	249.00	29 1 0				
	Profit on Exchange....	......	3 6 8				
		$15,266.00	£1,781 0 8			$15,266.00	£1,781 0 8
1909.							
December 31.	Balance.............	$1,820.00	£212 6 8				

Problem 32.

(New York Examination, January, 1911.)

The following is the trial balance of the X. Y. Z. Coal Mining Company, as of December 31, 1908:

TRIAL BALANCE DEC. 31, 1908

Cash	$5,674.50	
Breaker and machinery	145,000.00	
Office building	5,000.00	
Blacksmith shop	4,000.00	
Inside construction	15,675.00	
Car and mine rail account	7,534.50	
Horses and mules	5,600.00	
Accounts receivable	35,112.25	
Bills receivable	10,000.00	
Capital stock—common	....	$50,000.00
Capital stock—preferred	....	100,000.00
Coal sales	....	257,890.00
Accounts payable	....	12,500.00
Surplus	....	17,709.35
Depreciation on buildings and mach'ry..	....	12,000.00
Supplies	8,240.00	
Pay roll—outside	24,701.50	
Pay roll—inside	110,434.25	
Salaries—superintendent, etc.	6,000.00	
Salaries—office clerks	4,500.00	
Office expense	1,147.35	
General expense	750.00	
Claims for injuries	4,000.00	
Insurance (expires July 1, 1909)	5,500.00	
Repairs to buildings	4,075.00	
Repairs to construction	3,445.00	
Barn expense	1,500.00	
Selling expense	4,500.00	
Royalty account	30,500.00	
Water	800.00	
Fuel	935.00	
Timber and props	5,475.00	
	$450,099.35	$450.099.35

The total output for the year was 132,300 tons.

An examination of the books and records shows that the following charges had not been entered: horses and mules, $2,200; car and mine rail account, $1,450; claims for injuries, $1,000. During the year the bookkeeper through error charged to inside construction $3,415 instead of to pay roll inside.

The coal is mined on lease that averages 20 cents per ton. The inventory is as follows: timber and props, $1,500; powder, $555; oil, etc., $175. In preparing the above statements allowance for depreciation on buildings and machinery may be considered at the rate of 5%.

Prepare income and profit and loss account and balance sheet, as of the above date, showing gross earnings and net earnings, also the average cost per ton.

Solution.

INCOME AND PROFIT AND LOSS ACCOUNT FOR THE FISCAL PERIOD ENDING DECEMBER 31, 1908.

Coal Sales				$257,890.00
Cost of Mining:				
Pay Roll—Inside		$113,849.25		
Royalty		26,460.00		
Supplies		8,240.00		
Timber and Props		5,475.00		
		$154,024.25		
Less Inventory December 31, 1908:				
Powder	$555.00			
Oil	175.00			
Timber and Props	1,500.00	2,230.00	$151,794.25	
Cost of Preparation:				
Pay Roll—Outside		$24,701.50		
Water		800.00		
Fuel		935.00	26,436.50	
Repairs to Buildings			4,075.00	
Repairs Inside			3,445.00	
Barn Expense			1,500.00	
Insurance			2,750.00	
Depreciation on Buildings and Machinery			7,700.00	
Gross Profit Down			60,189.25	
			$257,890.00	$257,890.00
Gross Profit				$60,189.25
Management Expenses:				
Salaries, Superintendent, etc.		$6,000.00		
Salaries, Office Clerks		4,500.00		
Office Expense		1,147.35		
General Expense		750.00		
			$12,397.35	
Selling Expense			4,500.00	
Claims for Injuries			5,000.00	
Net Profit carried to Surplus Account			38,291.90	
			$60,189.25	$60,189.25
Average cost per ton				$1.66
Average net earnings per ton				.29

BALANCE SHEET AS AT DECEMBER 31, 1908.

Assets.

Plant Accounts:		
Breaker and Machinery	$145,000.00	
Office Building	5,000.00	
Blacksmith Shop	4,000.00	
Inside Construction	12,260.00	
Car and Mine Rail Account	8,984.50	
Horses and Mules	7,800.00	
		$183,044.50
Current Assets:		
Cash	$5,674.50	
Accounts Receivable	35,112.25	
Bills Receivable	10,000.00	
		50,786.75
Inventories:		
Powder	$555.00	
Oils, etc.	175.00	
Timber and Props	1,500.00	
		2,230.00
Deferred Charges:		
Royalty	$4,040.00	
Insurance	2,750.00	
		6,790.00
		$242,851.25

Liabilities.

Accounts Payable		$17,150.00
Capital, Reserve and Surplus.		
Capital Stock—Common	$50,000.00	
Capital Stock—Preferred	100,000.00	
		150,000.00
Reserve for Depreciation on Buildings and Machinery		19,700.00
Surplus, January 1, 1908	$17,709.35	
Add Net Earnings for Current Year	38,291.90	
		56,001.25
		$242,851.25

Problem 33.

(New York Examination, January, 1911.)

The A Manufacturing Company incorporated under the laws of the State of New York, with a capital of $100,000, consisting of 1,000 shares of $100 each, all of which has been paid in cash, presents the following balance sheet as of May 31, 1909:

ASSETS	
Cash	$125,000.00
Materials and supplies	25,000.00
Accounts receivable	300,000.00
Plant and buildings	400,000.00
	$850,000.00
LIABILITIES	
Accounts payable	$20,000.00
Capital	100,000.00
Surplus	730,000.00
	$850,000.00

Annual sales, $800,000.

The B Manufacturing Company incorporated under the laws of the State of New York, with a capital of $1,000,000 consisting of 10,000 shares of $100 each, presents the following balance sheet as of May 31, 1909:

ASSETS	
Cash	$50,000.00
Materials and Supplies	25,000.00
Accounts receivable	200,000.00
Plant	500,000.00
Goodwill	700,000.00
	$1,475,000.00
LIABILITIES	
Accounts payable	$150,000.00
Capital	1,000,000.00
Surplus	325,000.00
	$1,475,000.00

Annual sales, $600,000.

Both concerns are engaged in the manufacture of the same commodity and desire to consolidate for the purpose of maintaining prices, but will continue to operate each plant separately. They organize the United Manufacturing Company with a capital stock of $200,000 consisting of 2,000 shares of $100 each, the members of the A Company agreeing to subscribe for 1,000 shares and to pay for them in cash and the members of the B Company for 1,000 shares also payable in cash; the stock is issued to the following:

Comprising the A Company:

C—	Certificate	1	for	250	shares
D—	"	2	"	250	"
E—	"	3	"	250	"
F—	"	4	"	250	"

Comprising the B Company:

G—Certificate	5	for	250	shares
H—	"	6 "	250	"
I—	"	7 "	250	"
J—	"	8 "	250	"

The cash is paid into the treasury of the United Manufacturing Company on the issuance of certificates to the respective subscribers.

The United Manufacturing Company purchases and pays cash for the stock of materials and supplies of both mills.

The United Manufacturing Company rents from the A Company its plant and agrees to pay an annual rental of $90,000 and in addition thereto will pay the officers managing the A plant an annual salary of $90,000 for their services. The rent for the B Company plant is agreed on at $60,000 and the officers are to receive an annual salary of $60,000. It is agreed that all additions to the plants and all repairs and maintenance are to be paid for by the United Manufacturing Company.

Operations of both plants are continued and at the end of the fiscal year May 31, 1910 the balances appearing on the books of the United Manufacturing Company are as follows:

Cash	$200,000.00
Accounts receivable	200,000.00
Additions to plant	60,000.00
Accounts payable	160,000.00
Capital stock	200,000.00

The trading transactions of the respective mills are as follows:

A COMPANY'S MILL

Purchases—raw materials and supplies	$160,000.00
Labor	300,000.00
Factory expense	100,000.00
Repair and maintenance of plant	80,000.00
Office expense	60,000.00
Rent of plant	90,000.00
Officers' salaries	90,000.00
Sales	907,000.00

B COMPANY'S MILL

Purchases—raw materials and supplies	$140,000.00
Labor	250,000.00
Factory expense	75,000.00
Repair and maintenance of plant	70,000.00
Office expense	50,000.00
Rent of plant	60,000.00
Officers' salaries	60,000.00
Sales	778,000.00

The stock as of May 31, 1910, consisted of

Materials and supplies—A Company's mill	$10,000.00
Materials and supplies—B Company's mill	15,000.00
Labor due, not paid—A Company's mill	5,000.00
Labor due, not paid—B Company's mill	10,000.00

Open the books of the United Manufacturing Company; prepare balance sheet as of May 31, 1910 and consolidated trading and profit and loss account showing profits for each mill. As the mills have been kept in perfect repair no depreciation is to be considered; outstanding accounts are considered good. Provide for a dividend of 10%.

Prepare percentage table of each mill, showing to four (4) decimals the percentage of *each* of the following items against the total cost of production:

Materials and supplies.
Labor.
Factory expense.
Repairs and maintenance.
Rent of plant.

Solution.

UNITED MANUFACTURING COMPANY.

OPENING JOURNAL ENTRIES, MAY 31, 1909.

Subscribers		$200,000.00	
To Capital Stock			$200,000.00
Subscriptions to the Capital Stock of the United Manufacturing Company, incorporated under the laws of the State of New York, authorized capital, 2,000 shares of $100 each, as follows:			
C	$25,000.00		
D	25,000.00		
E	25,000.00		
F	25,000.00		
G	25,000.00		
H	25,000.00		
I	25,000.00		
J	25,000.00		
Cash		$200,000.00	
To subscribers			$200,000.00
Materials and Supplies		$50,000.00	
To Cash			$50,000.00
Purchased from:			
A. Company	$25,000.00		
B. Company	25,000.00		

UNITED MANUFACTURING COMPANY.

Balance Sheet as at May 31, 1910.

Assets.		*Liabilities.*		
Cash	$200,000.00	Wages Accrued		$15,000.00
Materials and Supplies as per Inventory	25,000.00	Accounts Payable		160,000.00
Accounts Receivable	200,000.00	Dividend Payable		20,000.00
Plant Addition	60,000.00			
				$195,000.00
		Capital and Surplus.		
		Capital Stock	$200,000.00	
		Surplus	90,000.00	
				290,000.00
	$485,000.00			$485,000.00

UNITED MANUFACTURING COMPANY.

Consolidated Trading and Profit and Loss Account for the Year Ending May 31, 1910.

Purchases	$160,000.00	$140,000.00	$300,000.00
Labor	305,000.00	260,000.00	565,000.00
Factory Expense	100,000.00	75,000.00	175,000.00
Rent of Plant	90,000.00	60,000.00	150,000.00
Repair and Maintenance	80,000.00	70,000.00	150,000.00
	$735,000.00	$605,000.00	$1,340,000.00
Less—Inventory, May 31, 1910	10,000.00	15,000.00	25,000.00
Cost of Production	$725,000.00	$590,000.00	$1,315,000.00
Sales	907,000.00	778,000.00	1,685,000.00
Gross Profit	$182,000.00	$188,000.00	$370,000.00
General Expense:			
Office Expense	$60,000.00	$50,000.00	$110,000.00
Officers' Salaries	90,000.00	60,000.00	150,000.00
Total	$150,000.00	$110,000.00	$260,000.00
Net Profit for Year Ending May 31, 1910	$32,000.00	$78,000.00	$110,000.00
Dividend Declared, 10%	....	....	20,000.00
Undivided Profits	....	....	$90,000.00

Percentage of Consumption Against Total Cost.

Raw Materials and Supplies	20.69%	21.19%
Labor	42.07	44.06
Factory	13.80	12.72
Repair and Maintenance	11.12	11.86
Rent of Plant	12.42	10.17
	100.00%	100.00%

Problem 34.

(New York Examination, January, 1911.)

From the following trial balance of Johnson & Thompson, Incorporated, as of June 30, 1910, the end of their fiscal year, prepare a manufacturing and profit and loss account and financial statement:

Cash on hand		$75.00	
Cash in bank		3,750.00	
Inventory July 1, 1909			
Raw material		33,480.00	
Finished goods		9,760.00	
Sales			$540,000.00
Return sales		8,463.00	
Freight and express outward		935.00	
Purchases		195,670.00	
Accounts payable			37,600.00
Bills payable			8,500.00
Accounts receivable		45,920.00	
Bills receivable		1,925.00	
Wages		232,927.00	
Fuel		11,270.00	
Factory supplies		3,648.00	
Cash discount on purchases			4,763.00
Freight and express inward		7,433.00	
Land		27,000.00	
Buildings		18,000.00	
Machinery and Tools		80,000.00	
Maintenance and replacement of machinery and tools	$10,580.00		
Less amount received from old machinery and tools	6,750.00	3,830.00	
Mortgages payable, 6% interest paid to May 1, 1910			17,000.00
Reserve for bad and doubtful accounts			1,280.00
Suspense account			
Worthless accounts receivable		679.00	
Patent rights—disbursements		320.00	
Depreciation—buildings machinery and tools			4,900.00

Advertising	$670.00	
Traveling expenses	3,700.00	
Office expenses	5,300.00	
Salaries of officers	12,300.00	
Dividends	12,500.00	
Interest	700.00	
Discount on sales	2,760.00	
Capital stock	....	$100,000.00
Surplus	....	8,972.00
	$723,015.00	$723,015.00

Inventory June 30, 1910:	
Raw material	$27,698.00
Partly finished goods	11,590.00
Fuel	1,200.00

The reserve for bad and doubtful accounts must equal 2% of the accounts receivable.

Although machinery and tools are maintained and replaced, 5% depreciation must be allowed on them as well as 5% depreciation on buildings.

Solution.

MANUFACTURING AND PROFIT AND LOSS AND INCOME STATEMENT.

Sales				$540,000.00
Freight and Express Outward			$935.00	
Return Sales			8,463.00	9,398.00
Amount Received from Sales				$530,602.00
Purchases			$195,670.00	
Freight and Express Inward			7,433.00	
Inventory, 7/1/9	$33,480.00			
	9,760.00	$43,240.00		
Inventory, 6/30/10	$27,698.00			
	11,590.00	39,288.00	3,952.00	
Cost of Goods Sold			$207,055.00	
Wages			232,927.00	
Prime Cost of Material and Wages			$439,982.00	
Overhead Charges:				
Fuel		$10,070.00		
Factory Supplies		3,648.00		
Maintenance and Replacement		3,830.00		
Depreciation, Machinery, Tools and Buildings		4,900.00	22,448.00	
Cost of Producing Goods Sold				462,430.00
Gross Profit on Sales				$68,172.00
Commercial Expenses:				
Advertising		$670.00		
Traveling		3,700.00	$4,370.00	
Administration Expenses:				
Office Expenses		$5,300.00		
Salaries of Officers		12,300.00	17,600.00	21,970.00
Profit and Loss Gross Income				$46,202.00
Other Income:				
Cash Discounts on Purchases				4,763.00
Total Income				$50,965.00
Charges against Income:				
Suspense Account		$679.00		
Less difference between Reserve	$1,280.00			
and 2% on Accounts Receivable	918.40	361.60	$317.40	
Interest		$700.00		
Interest accrued on Mortgage, two months		170.00	870.00	
Discounts on Accounts Receivable			2,760.00	3,947.40
				$47,017.60

FINANCIAL STATEMENT.

ASSETS.

Current Assets:		
Cash on Hand and in Bank	$3,825.00	
Accounts Receivable	45,920.00	
Bills Receivable	1,925.00	
		$51,670.00
Invested Assets:		
Raw Material Inventory, 7/1/10	$27,698.00	
Partly Finished Goods	11,590.00	
Fuel	1,200.00	
		40,488.00
Fixed Assets:		
Land	$27,000.00	
Building	18,000.00	
Machinery and Tools	80,000.00	
		125,000.00
Patent Rights		320.00
		$217,478.00

LIABILITIES.

Current Liabilities:			
Bills Payable	$8,500.00		
Accounts Payable	37,600.00		
		$46,100.00	
Fixed Liabilities:			
Mortgage on Plant	$17,000.00		
Accrued Interest	170.00		
		17,170.00	
			$63,270.00
Capital, Reserve and Surplus.			
Capital Stock			100,000.00
Reserves on Machinery and Tools		$9,800.00	
Accounts Receivable, 2%		918.40	
			10,718.40
Surplus, July 1, 1909		$8,972.00	
Net Profit, July 1, 1910		47,017.60	
		$55,989.60	
Less Dividend Paid		12,500.00	
Surplus, July 1, 1910			43,489.60
			$217,478.00

Problem 35.

(New York Examination, January, 1911.)

A corporation's inventory on Jan. 2, 1909, was:

Raw materials	$32,467.18
Goods in process	4,212.22
Plant	18,673.18
Made up goods	19,753.47

The corporation suffered a fire loss on May 1, 1909; the interim transactions affecting merchandising, manufacturing and plant were as follows:

Purchases raw materials	$46,375.22
Productive labor paid out	21,618.06
Manufacturing expenses	5,167.20
Rent of show room and offices	400.00
Selling expenses	7,618.25
Advertising	360.22
General expenses	2,561.12
Sales	95,714.66
Allowances to customers	310.18
Returns of customers	2,167.29
Plant purchases	361.22

The figures ascertained for the years 1906, 1907 and 1908, for the identical items, were as follows:

	1906	1907	1908
Purchases raw materials	$186,320.16	$104,360.22	$157,316.20
Productive labor paid out	90,322.24	61,212.06	72,106.14
Manufacturing expenses	20,163.12	16,208.17	20,216.23
Rent of show room and offices	1,500.00	1,200.00	1,200.00
Advertising	1,000.00	750.00	1,000.00
Selling expenses	28,672.18	16,314.12	22,312.18
General expenses	10,750.16	9,746.22	11,116.20
Sales	386,924.12	217,306.01	321,672.18
Allowances to customers	1,116.24	3,605.75	975.00
Returns of customers	8,614.08	4,106.18	3,167.22
Plant purchases	500.00	540.22	409.00
Inventories beginning of year			
Raw materials	39,223.16	31,316.20	33,416.20
Goods in process	6,104.12	3,107.12	3,726.18
Made up goods	21,223.10	17,306.29	18,622.12
Plant	17,223.96	17,723.96	18,264.18

You are employed by the assurers; all policies concur under the 80% coinsurance clause and the insured claims his loss is 42½% of the prime cost of his goods and value of his machinery at time of the fire; the percentage claim is adjusted at that figure. The amount of insurance in force was as follows: on merchandise stock, $40,000; on plant, $12,500.

Prepare requisite statements showing the value of the assets destroyed.

Solution.

Prime cost is here to be understood to mean:

1. Raw materials.
2. Productive labor.
3. Manufacturing expenses.

It is necessary to a clear understanding of this problem to ascertain the average amount of raw materials, productive labor and manufacturing expenses used up in the goods actually sold from the last time inventory was taken. For this purpose the figures for the three previous years are given amongst others.

Using these, we find the following:

RAW MATERIALS ACCOUNT.

Inventory Jan. 2, 1906	$39,223.16	
Purchases during 1906	186,320.16	
	$225,543.32	
Inventory Jan. 2, 1907		$31,316.20
Purchases during 1907		104,360.22
		$135,676.42
Deduct:		
Inventory Dec. 31, 1906	31,316.20	
Inventory Dec. 31, 1907		33,416.20
	$194,227.12	$102,260.22
Inventory Jan. 2, 1908	33,416.20	
Purchases during 1908	157,316.20	
	$190,732.40	
Total:		
Raw Material used 1906		$194,227.12
Raw Material used 1907		102,260.22
Raw Material used 1908		158,265.22
		$454,752.56
Deduct:		
Inventory Dec. 31, 1908	32,467.18	
	$158,265.22	

PRODUCTIVE LABOR ACCOUNT.

1906.	Amount paid therefor....................	$90,322.24	
1907.	Amount paid therefor....................	61,212.06	
1908.	Amount paid therefor....................	72,106.14	
			$223,640.44

MANUFACTURING EXPENSES.

1906.	Amount paid therefor....................	$20,163.12	
1907.	Amount paid therefor....................	16,208.17	
1908.	Amount paid therefor....................	20,216.23	
			$56,587.52

SALES ACCOUNT.

		DEDUCTIONS.		
	Gross Sales.	Allowances.	Returns.	Net Sales.
1906	$386,924.12	$1,116.24	$8,614.08	$377,193.80
1907	217,306.01	3,605.75	4,106.18	209,594.08
1908	321,672.18	975.00	3,167.22	317,529.96
	$925,902.31	$5,696.99	$15,887.48	
		15,887.48		
	21,584.47			
	$904,317.84			$904,317.84

Average % of Raw Materials used in goods actually sold	$454,752.56	
	$904,317.84	50.28%
Average % of Productive Labor used in goods actually sold	223,640.44	
	904,317.84	24.73%
Average % of Manufacturing Expenses used in goods actually sold	56,587.52	
	904,317.84	6.25%

Component Elements of Costs in Prime Costs.

	% to Selling Price.	% to Prime Cost.
Raw Materials	50.28%	61.88%
Productive Labor	24.73%	30.43%
Manufacturing Expenses	6.25%	7.69%

The same percentages will prevail in goods in process and made up goods. Arriving now at the period where the fire loss occurs, we note that the last inventory taken was on January 2, 1909.

ANALYSIS OF INVENTORIES JAN. 2, 1909.

	Raw Materials.	Component Elements of goods in process.	Component Elements of made-up goods.	Total.
Raw Materials	$32,467.18	$2,606.52	$12,223.45	$47,297.15
Productive Labor ...	....	1,281.78	6,010.98	7,292.76
Manfg. Expenses ...	....	323.92	1,519.04	1,842.96
	$32,467.18	$4,212.22	$19,753.47	$56,432.87

CONSTRUCTION OF GOODS ON HAND MAY 1, 1909, WHEN FIRE OCCURS.

	Raw Materials.	Productive Labor.	Manfg. Expenses.
Inventory Jan. 2, 1909....	$47,297.15	$7,292.76	$1,842.96
Purchases to May, 1909....	46,375.22 pd. out	21,618.06 pd. out	5,167.20
	$93,672.37	$28,910.82	$7,010.16
Deduct:			
Used-up goods actually sold	46,879.66	23,057.56	5,827.32
On hand May 1, 1909....	$46,792.71	$5,853.26	$1,182.84

SYNTHESIS OR RECONSTRUCTION OF GOODS IN PROCESS AND MANUFACTURED GOODS ON HAND MAY 1, 1909.

The total of Productive Labor and Manfg. Expenses amount to	$7,036.10	38.12%
The total of Raw Materials amount to...............	11,421.67	61.88%
	$18,457.77	100.00%

Deducting these $11,421.67 of Raw Materials contained in partly made or totally made-up goods from the total Raw Material proper, or $46,-792.71, we find the total inventory on May 1, 1909, as follows:

Raw Material proper...	$35,371.04
Goods in Process and Made-up Goods........................	18,457.77
	$53,828.81
The loss adjusted being 42½%, we find the same to be........	$22,877.24

The plant, we note as accountants for the assurers, not to have been reduced by any depreciation for the last three years, nor any reserve set up

against it for this purpose, therefore we will allow a yearly depreciation of 10% on the diminishing value to prevail, viz.:

PLANT AND MACHINERY ACCOUNT.

Inventory, Jan. 1, 1906	$17,223.96	
Purchases, 1906	500.00	
	17,723.96	
10% Depreciation	1,772.40	
Value, Dec. 31, 1906	15,951.56	
Purchases, 1907	540.22	
	16,491.78	
10% Depreciation	1,649.18	
Value, Dec. 31, 1907	14,842.60	
Purchases, 1908	409.00	
	15,251.60	
10% Depreciation	1,525.16	
Value, Dec. 31, 1908	13,726.44	
Purchases, 1909, to May 1	361.22	
	14,087.66	
Depreciation, 10% per annum, or 3⅓% for four months	469.55	
Value of Plant May 1, 1909	$13,618.11	
Loss, 42½%, adjusted		$5,787.70

Problem 36.

(Illinois Examination, May, 1911.)

The Ledger Balances of the accounts of John Smith at 31st December, 1910, are as follows:

Accounts Receivable	$5,140.00
Accounts Payable	2,692.00
Bills Payable	658.00
Bills Receivable	217.00
Loan Advanced by J. Smith	500.00
Cash on Hand	44.00
Bank Overdraft	1,065.00
Inventory, January 1, 1910	3,020.00
Purchases	7,386.00
Sales	16,406.00
Wages	4,839.00
Office Salaries	1,045.00
Traveling Expenses	503.00
Interest Paid	173.00
Stationery	284.00
Rent, Taxes and Insurance	222.00
Discounts and Allowances	258.00
Machinery Expense and Fuel	264.00
Freight	206.00
Incidental Expenses	151.00
Commissions	50.00
Rents Received	329.00
Capital	3,249.00
Bad Debts	97.00
	$48,798.00

Rent $200.00 a year is charged to September 30, 1910; repairs to engine estimated at $90.00, account not yet received.

Provide 2½ per cent. on Accounts Receivable for discounts, also $150.00 for estimated loss by bad debts, and $20.00 for interest accrued on loan.

Prepare Trading, and Profit and Loss Account and Balance Sheet as at December 31, 1910.

Solution.

TRIAL BALANCE OF JOHN SMITH.

DECEMBER 31, 1910.

Accounts Receivable	$5,140.00	
Accounts Payable		$2,692.00
Bills Payable		658.00
Bills Receivable	217.00	
Loan advanced by John Smith	500.00	
Cash on Hand	44.00	
Bank Overdraft		1,065.00
Inventory, January 1, 1910	3,020.00	
Purchases	7,386.00	
Sales		16,406.00
Wages	4,839.00	
Office Salaries	1,045.00	
Traveling Expenses	503.00	
Interest Paid	173.00	
Stationery	284.00	
Rent, Taxes and Insurance	222.00	
Discounts and Allowances	258.00	
Machinery Expense and Fuel	264.00	
Freight	206.00	
Incidental Expenses	151.00	
Commissions	50.00	
Rents Received		329.00
Capital		3,249.00
Bad Debts	97.00	
	$24,399.00	$24,399.00

TRADING AND PROFIT AND LOSS STATEMENT OF JOHN SMITH FOR THE PERIOD ENDING DECEMBER 31, 1910.

SALES		$16,406.00	
Deduction from sales:			
Discounts and allowances	$258.00		
Reserve for discounts	128.50		
Total deduction from sales		386.50	
Amount realized from sales			$16,019.50
COST OF MANUFACTURE:			
Prime Cost:			
Inventory January 1, 1910	$3,020.00		
Purchases	7,386.00		
Freight Forward	206.00		
Cost of materials	$10,612.00		
Wages	4,839.00		
Total prime cost		15,451.00	
Factory overhead charges:			
Machinery expense and fuel	$264.00		
Repairs to engine	90.00		
Total overhead charges		354.00	
Cost of production			15,805.00
Gross profit on sales			$214.50
COST OF SALES:			
Traveling expenses		$503.00	
Commissions		50.00	
			553.00
Selling loss			$338.50
COST OF ADMINISTRATION:			
Office salaries		$1,045.00	
Stationery		284.00	
Incidental expenses		151.00	
Total administration expenses			1,480.00
Total loss on sales			$1,818.50

Deduct other income:			
Rents received		$329.00	
Interest accrued on loan (not credited)		20.00	
			349.00
			$1,469.50
Charges against Income:			
Rents, Taxes and Insurance........	$222.00		
Rent accrued (not charged)........	50.00		
		$272.00	
Bad Debts		97.00	
Reserve for Bad Debts.............		150.00	
Interest Paid		173.00	
Total charges against income.....			692.00
Net Loss			$2,161.50

BALANCE SHEET OF JOHN SMITH.

DECEMBER 31, 1910.

ASSETS.

Current Assets.

Cash on Hand		$44.00	
Accounts Receivable	$5,140.00		
Bills Receivable	217.00		
		5,357.00	
Loan Advanced	$500.00		
Interest Accrued	20.00		
		520.00	
			$5,921.00
			$5,921.00

LIABILITIES.

Current Liabilities.

Accounts Payable	$2,692.00		
Repairs to engine (a/c not received)	90.00		
		$2,782.00	
Bills Payable		658.00	
Bank Overdraft		1,065.00	
Rent Accrued		50.00	
			$4,555.00
Capital and Reserve Account.			
Capital, Jan. 1, 1910	$3,249.00		
Less Loss	2,161.50		
Present Capital		$1,087.50	
Reserves:			
For Discount on Accounts Receivable	$128.50		
Bad Debts	150.00		
		278.50	
			1,366.00
			$5,921.00

Problem 37.

(Illinois Examination, May, 1911.)

A testator bequeathed by his will legacies amounting to $6,700.00. His widow was to be paid $1,000.00 within one month after his death, and his household furniture was specifically bequeathed to her. $74.12 was found in the house and the cash at the bankers was $1,842.91. His investments were valued at $48,461.12 (their nominal value being $45,000.00). His real property was valued at $68,000.00. Persons were indebted to him for loans without interest for $450.00, while his creditors were $7,276.54. The funeral expenses came to $98.16, probate and miscellaneous expenses to $4,697.45.

Draw a statement, showing the "corpus" to be dealt with by the executors, assuming that the investments were bonds bearing interest at 4 per cent., that the real property yielded 6 per cent., that the former were paid half-yearly, and the latter quarterly, and that both interests and rents fell due two months after the testator's death.

Solution.

SUMMARY STATEMENT OF THE EXECUTORS OF THE ESTATE OF ...., DECEASED .... 19...

We charge ourselves with the following:

For Account of Principal:

Estate as per Inventory, viz.:			
Cash in the House	$74.12		
Cash at Bankers	1,842.91		
Investments (4% bonds)	48,461.12		
Debtors	450.00		
		$50,828.15	
Amount of Increase, viz.:			
Interest on Bonds (accrued at time of death)	$600.00		
Rent (1 month accrued at time of death)	340.00		
		940.00	
Total Charges as to Principal....			$51,768.15

For Account of Income:			
Interest on Bonds (2 months after death of testator)	$300.00		
Rent (2 months after death of testator)	680.00		
Total Charges to Income			980.00
Combined Total Charges			$52,748.15
We credit ourselves with the following:			
Payment out of Principal:			
Testamentary Expenses, viz.:			
Funeral Expenses	$98.16		
Probating will and miscellaneous	4,697.45		
		$4,795.61	
Debts due by deceased		7,276.54	
Amounts paid to legatees		1,000.00	
Specific bequest to the wife of testator			13,072.15
Balance to be dealt with by executors			$39,676.00

Problem 38.

(New York Examination, June, 1911)

The cost books of Factory A, the product of which is charged to the main office of the X. Y. Z. Co., at factory cost, show the following facts January 1, 1910:

Cash (imprest fund) $500; raw materials, $17,688.51; wages unpaid and distributed, $2,348.67; goods in process, at prime cost, $62,258.61, plus $11,352.75 for general expenses, and $9,907.50 for management charges; finished goods, $45,290.20.

The invoices for purchases of raw materials for the year amounted to $78,375.65; wages paid, $133,041.27; management charges, $53,695; factory expenses, $36,967.08. The cash receipts for one year's rent of loft were $1,200, and for 11 months' sale of power $330, the twelfth month being unpaid.

The raw materials consumed during the period amounted to $64,188.33; management charges distributed $55,761.90; factory expenses distributed to costs amounted to $43,033.23. There was also a loss on machinery replacements of $107.50.

The finished product output for the year amounted to $324,583.43, including all costs, and the transfers to the main office were $338,297.90.

At the close of the period December 31, 1910, there remained unpaid and undistributed to goods in process the regular factory pay roll for 3 days amounting to $2,857.93 and also 1500 hours of operative's overtime at an average rate of 45 cents per hour, payable on a basis of 2½ hours overtime as the equivalent of 3½ hours regular time.

Raise all the ledger accounts affected and show final trial balance.

Solution.

Cash Account.

Main Office...........	$500.00		

Raw Materials.

Main Office...........	$17,688.51	Manufacturing acc't...	$64,188.33
Purchases............	78,375.65	Balance..............	31,875.83
	$96,064.16		$96,064.16
Balance..............	$31,875.83		

Capital Accounts.

		Main Office	$107.50

Wages.

Main Office	$133,041.27	Main Office	$2,348.67
Balance	3,802.93	Manufacturing acc't.	130,692.60
		Regular pay roll	2,857.93
		1,500 hours overtime	945.00
	$136,844.20		$136,844.20
		Balance	$3,802.93

Manufacturing Account.

Main Office	$62,258.61	Finished goods	$324,583.43
Raw Material	64,188.33	Balance	31,351.24
Wages	130,692.60		
Management	55,761.90		
Factory gen. expenses	43,033.23		
	$355,934.67		$355,934.67
Balance	$31,351.24		

Factory General Expenses.

Main Office	$11,352.75	Rent	$1,200.00
Main Office	36,967.08	Power	330.00
		Power tenant charge	30.00
		Manufacturing acc't.	43,033.23
		Balance	3,726.60
	$48,319.83		$48,319.83
Balance	$3,726.60		

Finished Goods.

Main Office	$45,290.20	Main Office	$338,297.90
Manufacturing acc't.	324,583.43	Balance	31,575.73
	$369,873.63		$369,873.63
Balance	$31,575.73		

Tenant.

Factory gen. expenses	$30.00		

Management Charges.

Main Office	$9,007.50	Manufacturing acc't.	$55,761.90
Main Office	53,695.00	Balance	6,940.60
	$62,702.50		$62,702.50
Balance	$6,940.60		

MAIN OFFICE ACCOUNT.

Wages	$2,348.67	Sundries	$146,097.57
Rent received	1,200.00	Raw material	78,375.65
Power	330.00	Wages	133,041.27
Capital acc'ts (replace)	107.50	Management	53,695.00
Finished goods	338,297.90	Factory gen. expenses	36,967.08
Unpaid pay roll	3,802.93		
Balance	102,089.57		
	$448,176.57		$448,176.57
		Balance	$102,089.57

TRIAL BALANCE.

Cash	$500.00	Capital accounts	$107.50
Raw material	31,875.83	Wages	3,802.93
Manufacturing acc't	31,351.24	Main Office accounts	102,089.57
Factory gen. expenses	3,726.60		
Management	6,940.60		
Finished goods	31,575.73		
Tenant	30.00		
	$106,000.00		$106,000.00

Problem 39.

(New York Examination, June, 1911.)

Philip Jones, a citizen of New York State, died April 1, 1909, leaving a will appointing four executors. The will was probated May 1, 1909, showing the following bequests:

X 1/3 share, B 1/4, C 5/12 of the entire estate after payment of funeral expenses, debts, etc., a specific bequest to the A Hospital consisting of $20,000 and a parcel of improved property valued at $50,000.

The inventory filed by his executors was as follows: 5% mortgage for $40,000, interest payable semi-annually on June 30 and December 31; 500 shares common stock of Industrial Company, par value $100, appraised @ 110; 50-5% first mortgage bonds of A Railway Company, par value $100, appraised @ 104, interest payable semi-annually on March 1 and September 1; accounts receivable valued at $20,000; cash in banks and on hand, $69,250; household furniture and effects appraised at $5,500.

The executor's transactions were as follows:

CASH RECEIPTS.

500 shares of Industrial stock sold @ $115 per share.

45 first mortgage bonds sold July 1 @ $111 and accrued interest.

Accounts collected, $18,500 (balance worthless).

6% dividend on Industrial stock declared May 1, 1909.

Interest on bank balances $1,300, of which $400 accrued prior to testator's death.

Interest on bonds and also on mortgage duly collected.

Rents collected $4,000, of which $1,500 accrued prior to death of testator.

The household furniture and effects were taken by X at the appraised valuation.

CASH PAYMENTS.

Funeral expenses	$2,000
Expenses of probating will	335
General legal services	1,000
Rent of safe deposit vault	50
Care of cemetery lot, etc	500
Premium on executors' bonds	100
Stationery, postage, etc	125
Debts of deceased	12,865
Taxes	1,025
X on account of legacy	12,000
C on account of legacy	20,000

The inventory on December 31, 1909, the date on which the executors wish to render an accounting, is as follows:

5% mortgoge $40,000.

Five 5% first mortgage bonds of A Railway Company.

Interest on X's advances amounts to $350 and on C's advances $575.

Prepare (a) a summary statement separating principal and income, (b) a statement showing amounts due beneficiaries, (c) a statement showing the commission due executors.

Solution.

(*a*) SUMMARY STATEMENT OF THE EXECUTORS OF THE ESTATE OF PHILIP JONES, WHO DIED APRIL 1, 1909.

We charge ourselves

First, as to Principal, with—			
Amount of inventory		$194,950.00	
Amount of increase, viz.:			
Industrial stock	$2,500.00		
Railway bonds	315.00		
Rent and interest accrued prior to testator's death	2,420.83	5,235.83	
Total charges, as to Principal			$200,185.83
Second, as to Income, with—			
Amount of dividend on industrial stock		$3,000.00	
Amount of interest on advances		925.00	
Amount of interest on bank balances		900.00	
Amount of rent		2,500.00	
Amount of interest on mortgage		1,500.00	
Amount of interest on bonds		66.67	
Total charges, as to Income			8,891.67
Combined total charges, principal and income			$209,077.50

We credit ourselves:

First, as to Principal, with—			
Amount of testamentary expenses, viz.:			
Funeral expenses		$2,000.00	
Probating of will		335.00	
General legal services		1,000.00	
Rent of safe deposit vault		50.00	
Care of cemetery lot, etc		500.00	
Premium on executors' bonds		100.00	$3,985.00
Amount of miscellaneous payments:			
Debts of deceased		$12,865.00	
Taxes		1,025.00	13,890.00
Amount lost on acc'ts receivable			$1,500.00
Amounts advanced to legatees, viz.:			
X., Cash advances	12,000.00		
Interest on advances	350.00		
Household furniture	5,500.00	$17,850.00	
C., Cash advances	$20,000.00		
Interest on advances	575.00	20,575.00	38,425.00
Total credits, as to Principal			$57,800.00

Second, as to Income, with—

Amount of stationery, postage, etc.	$125.00	
Combined total credits, Principal and Income		$57,925.00
Balance		$151,152.50
Deduct:		
Executors' commissions as per statement	$4,981.72	
Specific bequest to "A" Hospital	20,000.00	
		24,981.72
		$126,170.78

Balance available for legatees consists of the following:

A 5% mortgage for	$40,000.00
Five 5% mortgage bonds at 104	520.00
Cash	85,650.78
	$126,170.78

(*b*) STATEMENT SHOWING AMOUNTS DUE BENEFICIARIES

Total value as per inventory		$194,950.00	
Total net increase, viz.:			
Increase, principal	$5,235.83		
Increase, income	8,891.67		
	$14,127.50		
Less—Decrease	1,500.00	12,627.50	$207,577.50
Disbursements, exclusive of advances:			
Testamentary expenses	$3,985.00		
Miscellaneous payments	14,015.00		18,000.00
Balance			$189,577.50
Deduct:			
Executors' commissions as per statement		$4,981.72	
Specific bequest to "A" Hospital		20,000.00	24,981.72
Balance available to legatees			$164,595.78
Deduct advances			38,425.00
Remaining balance for distribution			$126,170.78
X. is therefore entitled to ⅛, or		$37,015.26	
B. to ¼, or		41,148.95	
C. to 5/12, or		48,006.57	
		$126,170.78	

(*c*) Statement Showing Amounts Due Executors for Commissions

Total value of estate as per inventory.............	$194,950.00	
Total net increase (as shown in Statement *b*)......	12,627.50	
Total amount		$207,577.50
Deduct:		
Specific bequest to "A" Hospital...............	$20,000.00	
Inventory on hand at the time of rendering this accounting	40,520.00	60,520.00
Balance on which commissions are to be computed		$147,057.50
Allowing 5% on the first $1,000.00..................	$50.00	
Allowing 2½% on the first $10,000.00...............	250.00	
Allowing 1% on the balance of $136,057.50.........	1,360.57	
	$1,660.57	

As the value of the estate is over $100,000.00 and there are four executors, three single commissions are to be allowed to be divided among the four executors.

The total commission is therefore $4,981.72 and each individual executor's share is $1,245.43.

Problem 40.

(New York Examination, June, 1911.)

The Prosperous Company is organized under the laws of the State of New York to conduct a manufacturing business. The authorized capital is \$500,000.00, divided into \$250,000.00 common and \$250,000.00 preferred stock, par value of shares \$100.00. Five incorporators subscribe each for one share of common stock at face value. John Peters, one of the incorporators, purchases from three manufacturing companies their complete plants for \$499,500.00 and transfers said plants to the Prosperous Company for the remaining \$499,500.00 of common and preferred stock and \$100,000.00 of First Mortgage 5% bonds out of a total issue of bonds amounting to \$150,000.00, leaving \$50,000.00 of bonds in the treasury. The incorporators then pay in cash for their respective subscriptions.

The individual assets acquired are as follows: land and buildings, \$75,000.00; plant and machinery, \$200,000.00; tools, equipment and fixtures, \$50,000.00; inventories, \$100,000.00; accounts receivable, good, \$28,000.00, doubtful, \$5,000.00; cash, \$12,000.00.

Prepare (a) opening entries for the books of the Prosperous Company, (b) initial balance sheet showing the Company's financial condition.

Solution.

THE PROSPEROUS COMPANY.

Incorporated under the laws of the State of New York
with an
AUTHORIZED CAPITAL
of
$500,000.00.

divided into 2,500 shares of common and 2,500 shares of preferred capital stock, par value of each $100.00.

Common Stock Subscriptions..................	$500.00	
Unsubscribed Common Stock..................	249,500.00	
Unsubscribed Preferred Stock.................	250,000.00	
To Authorized Common Stock..............		$250,000.00
Authorized Preferred Stock..............		250,000.00
for the respective subscription to five shares of the Common Capital stock of this Company by ....one share each, also to place the authorized issue on the books.		
Plant, Good Will and Sundry Assets...........	599,500.00	
To John Peters, Vendor..................		$599,500.00
for the transfer to this Company of his rights, title and interest in all of the assets, including the good will acquired by him from X, Y and Z, Companies fully enumerated in the bill of sale dated..............., approved by the Board of Directors, as shown in the Minute Book page.....		
First Mortgage Treasury Bonds................	150,000.00	
To First Mortgage Payable...............		150,000.00
in accordance with the resolution of the Board of Directors the Company was authorized to issue $150,000.00 of first mortgage bonds payable...........bearing five per cent. interest.		
Subscription to Common Stock...............	249,500.00	
Subscription to Preferred Stock...............	250,000.00	
To Unsubscribed Common Stock..........		249,500.00
Unsubscribed Preferred Stock.........		250,000.00
for John Peter's subscription to balance of unsubscribed stock.		
John Peters, Vendor.........................	599,500.00	
To Subscription to Common Stock........		249,500.00
Subscription to Preferred Stock........		250,000.00
Treasury First Mortgage Bond.........		100,000.00

for 2,495 shares of common and 2,500 shares of preferred stock and ...... bonds issued to the above in full payment for the assets transftrred to this Company.

Cash	$500.00	
To Common Stock Subscription		$500.00

payment for subscription by the respective subscribers.

In accordance with a resolution of the Board of Directors fully recorded in the Minute Book page ... the following entry is made in order to place the various assets acquired, on the books of the Company.

Land and Buildings	75,000.00	
Plant Machinery	200,000.00	
Tools, Equipment and Fixtures	50,000.00	
Inventories	100,000.00	
Accounts Receivable	28,000.00	
Cash	12,000.00	
Good Will	134,500.00	
To Plant, Good Will and Sundry Assets....		599,500.00
Accounts Receivable	5,000.00	
To Reserve for bad and doubtful debts....		5,000.00

This entry is made in order to record the doubtful and bad accounts in the controlling account.

THE PROSPEROUS COMPANY.

BALANCE SHEET AS AT.............19....

Assets.			Liabilities and Capital.		
Land and Buildings		$75,000.00	First Mortgage Payable		$150,000.00
Plant and Machinery		200,000.00	Capital:		
Tools, Equipment and Fixtures		50,000.00	Common	$250,000.00	
Inventories		100,000.00	Preferred	250,000.00	
Accounts Receivable	$33,000.00				500,000.00
Less Reserve	5,000.00				
		28,000.00			
Cash		12,500.00			
Good Will		134,500.00			
First Mortgage Treasury Bonds		50,000.00			
		$650,000.00			$650,000.00

Notes on Problems.

Problem 1.

The wording in this problem is ambiguous. It reads that repairs and renewals are to be charged to the plant and a depreciation of six per cent per annum is to be allowed. Repairs and renewals should be charged as a revenue and not as a capital expenditure. The problem does not state whether the repairs and renewals in question were of such a nature as to increase the earning capacity of the concern.

With regard to the solution, it will be observed that in charging depreciation on plant the wording of the problem was followed to the letter, and therefore cannot be criticised as incorrect. The interest on loans was distributed respectively between New York, Chicago, and Minneapolis on the same basis as the interest on capital. While this division of interest on loans may be questioned, yet from the wording of the problem nothing else could be inferred. The problem states that "interest on borrowed money was to be distributed according to the invested capital at each branch." Whether the capital of which that interest is charged was divided according to the original investment or not the problem does not state.

Problem 2.

The solution of this problem consists of two statements. The first one, which is a summary accounting statement of the executor, is not made out strictly in accordance with the requirements of the law; no dates are supplied by the examiners and it is, consequently, impossible to distinguish between principal and income. All interest on the bonds and mortgages is considered as principal in this case and is entered under the amounts of increases. The executor has realized on the assets, part of which had been accepted by the legatees as advances; the balance is all cash, to be distributed among the three children according to the separate statements appended, showing clearly the amounts advanced in cash and otherwise, and the balances due to each legatee. It will be noticed that the testator has limited the allowance of the executor in the will; he cannot claim more than $2,500, although the calculation according to the law might have resulted in a larger fee.

Problem 3.

This is a real problem illustrating the adjustment of partners' capitals in a liquidation where it is desired to distribute the assets in installments as soon as they are received, thus paying the monthly distributions before the final net profit or loss has been ascertained on the total realization. The question will now arise: on what basis should each installment be distributed? How should the first installment be divided?

It should not be apportioned in the ratio of the original investments, that is, 4: 3: 2: 1; neither can it be divided in the proportion the profits or losses are divisible, nor proportionately to the capitals at the dissolution of the partnership.

The correct method would be to *equalize* the status of the partners, and justly so for this reason; it is quite impossible to know beforehand how much the remaining assets will realize; ergo, assuming that no more cash will be received, the consequent loss must be borne by the partners in the agreed ratios.

Let us therefore illustrate the equalization procedure at this stage of the operations.

Net capital at time of dissolution		$90,000.00
Deduct:		
Liquidation expenses, first month	$ 400.00	
First month's cash installment	21,890.00	22,290.00
Leaving unrealized assets as an assumed loss aggregating		$67,710.00

Capital balances, after deducting first month's expenses:

	A	B	C	D
	$36,660.00	$27,048.00	$17,552.00	$8,340.00
Division of	35%	28%	22%	15%
losses	23,698.50	18,958.80	14,896.20	10,156.50
Equalized capitals	12,961.50	8,089.20	2,655.80	*1,816.50

*Deficit.

D must bring in additional $1,816.50 to cover his deficit.

The first month's cash installment will be:

Cash collected for distribution	$21,890.00
D's new cash	1,816.50
	$23,706.50

Which will be distributed between A, B and C in accordance with their equalized capital holdings, viz.:

A	$12,961.50	
B	8,089.20	
C	2,655.80	
		$23,706.50

An eminent authority on the correctness of the principle involved in the problem under review, Henry Rand Hatfield, Ph. D., Associate Professor of Accounting at the University of California, favors the equalization method. In his admirable *Modern Accounting* he says: "The adjustment between partners having once been made, all further installments are to be divided in proportion to the division of losses. This is not because the division of assets is at all the same as the division of profits or of losses, but because this method of treating all unrealized assets as potential losses prevents any one of the partners being overpaid."

In Dicksee's *Advanced Accounting* a problem is given, illustrating the basic principle under discussion. Dicksee also favors the solution on the equalization basis. Hence, *in any contingency* the partners will be paid their just and equitable shares, and the prime object of the distribution has been accomplished.

The 5% commission should be eliminated from the partnership accounts; it is a private agreement to be adjusted by the partners *inter se.*

Suppose, after the equalization of the partners' capitals, D is not prepared to produce cash to cover his deficit of $1,816.50, how will then the cash distributions be divided between A, B and C before and after D has made good his deficit? How much will D get after reimbursing A, B and C? In this instance D's deficit must be borne by A, B and C in the ratio 35: 28: 22, thus:

First Month's Cash Distribution.

A's equalized capital	$12,961.50	
Less 35/85 of $1,816.50	747.97	$12,213.53
B's equalized capital	8,089.20	
Less 28/85 of $1,816.50	598.38	7,490.82
C's equalized capital	2,655.80	
Less 22/85 of $1,816.50	470.15	2,185.65
Total		$21,890.00

Second Month's Cash Distribution.

A's share, 35%	$15,207.50	
Add 35/85 of $1,816.50 from D	747.97	$15,955.47
B's share, 28%	12,166.00	
Add 28/85 of $1,816.50 from D	598.38	12,764.38
C's share, 22%	9,559.00	
Add 22/85 of $1,816.50 from D	470.15	10,029.15
D's share, 15%	6,517.50	
Less his deficit apportioned to A, B, and C	1,816.50	4,701.00
Total		$43,450.00

The third and fourth months' cash distributions will be the same as stated in the solution above.

Another solution to this problem may be of interest to the reader:

In accordance with Dicksee's method, that where payments are made to partners before all assets have been realized, the partners' accounts

should be brought to the ratios in which they share profits or losses, we proceed as follows:

Amounts to credit of partners' accounts, after debiting their proportions of the loss is $8,000; and the personal drawings are: A, $36,800; B, $27,160; C, $17,640; D, $8,400.

Taking D's credit as 15% of the equalized capital (which, it will be found, is the easiest way), we get, A, 35%, $19,600; B, 28%, $15,680; C, 22%, $12,320; D, 15%, $8,400.

As the capital accounts of A, B, and C are all in excess of their equalized capital, a sufficiently large amount to reduce their capital to the equalized amount should be paid them before any payment is made to D.

The cash receipts for the first month are arrived at thus:

Book value of assets realized		$30,190.00
Less liabilities liquidated	$7,900.00	
Less loss and expenses	400.00	8,300.00
		$21,890.00

If this amount were distributed among A, B, and C in the ratio of 35, 28, and 22, the amounts paid over would be: A, $9,013.53; B, $7,210.82; C, $5,665.65; but the amount necessary to reduce C's captal to the equalized capital is only $5,320, so we adopt this method:

Cash receipts	$21,890.00
Less payment to equalize C's capital	5,320.00
To be divided among A and B	$16,570.00

Dividing this amount in the ratios of 35 and 28 we get, A, $9,305.56; B, $7,364.44.

But C has to pay A and B a commission of 5% of his share, or $266, which we deduct from the amount payable to him, and credit in equal amounts to A and B, increasing the amounts of cash paid to them accordingly.

The cash receipts for the second month, ascertained in the same way as those of the first, amount to $43,450, from which we deduct amounts necessary to equalize A and B's capital accounts, viz.:

A	$7,994.44
B	4,115.56
	$12,110.00

leaving $31,340, and all subsequent cash receipts to be distributed to all partners in the ratio of 35, 28, 22, and 15; C and D's shares to be subject to the 5% commission payable to A and B.

A

Dr.		Cr.	
To Drawings	$400.00	By Capital Account Investment	$40,000.00
" 35% of loss $8,000	2,800.00		
" Balance	36,800.00		
	$40,000.00		$40,000.00
		By Balance	$36,800.00
To Cash on account	$9,338.56	" C ½ commission on his share	133.00
" Balance	27,594.44		
	$36,933.00		$36,933.00
To Cash to reduce capital to rate of 35%	$7,994.44	By Balance	$27,594.44
" Balance 35%	19,600.00		
	$27,594.44		$27,594.44
To 35% Loss and expense of liquidation First month...$400.00	$140.00	By Balance 35%	$19,600.00
Second month. 750.00	262.50	" C ½ commission on his share	172.37
" Cash	11,258.89	" D ½ commission on his share	117.52
" Balance	8,228.50		
	$19,889.89		$19,889.89
To 35% Loss and expense of liquidation Third month...$340.00	$119.00	By Balance 35%	$8,228.50
" Cash	5,701.29	" C ½ commission on his share	87.28
" Balance	2,555.00	" D ½ commission on his share	59.51
	$8,375.29		$8,375.29
To 35% Loss and expense of liquidation Fourth month.$110.00	$38.50	By Balance 35%	$2,555.00
" Cash	2,583.01	" C ½ commission on his share	39.54
		" D ½ commission on his share	26.97
	$2,621.51		$2,621.51

B

Dr.		Cr.	
To Drawings	$600.00	By Capital Account Investment	$30,000.00
" 28% of loss $8,000	2,240.00		
" Balance	27,160.00		
	$30,000.00		$30,000.00
To Cash on account	$7,497.44	By Balance	$27,160.00
" Balance	19,795.56	" C ½ commission on his share	133.00
	$27,293.00		$27,293.00
To Cash to reduce capital to rates of 28%	$4,115.56	By Balance	$17,795.56
" Balance 28%	15,680.00		
	$19,795.56		$19,795.56

To 28% Loss and expense of liquidation:		By Balance 28%	$15,680.00
First month ..$400.00	$112.00	" C ½ commission on his share	172.37
Second month. 750.00	210.00	" D ½ commission on his share	117.53
" Cash	9,065.10		
" Balance	6,582.80		
	$15,969.90		$15,969.90
To 28% Loss and expense of liquidation:		By Balance 28%	$5,582.80
Third month..$340.00	$95.20	" C ½ commission on his share	87.29
" Cash	4,590.40	" D ½ commission on his share	59.51
" Balance, ...28%	2,044.00		
	$6,729.60		$6,729.60
To 28% Loss and expense of liquidation:		By Balance 28%	$2,044.00
Fourth month.$110.00	$30.80	" C ½ commission on his share	39.55
" Cash	2,079.71	" D ½ commission on his share	26.96
	$2,110.51		$2,110.51

C

Dr.			Cr.
To Drawings	$600.00	By Capital Account Investment	$20,000.00
" 22% of loss $8,000....	1,760.00		
" Balance	17,640.00		
	$20,000.00		$20,000.00
To A commission $133...			
" B commission $133... 5% of share	$266.00		
" Cash to reduce capital to ratio of 22%......	5,054.00		
" Balance 22%	12,320.00	By Balance	$17,640.00
	$17,640.00		$17,640.00
To 22% Loss and expense of liquidation			
First month...$400.00	$88.00		
Second month. 750.00	165.00		
" A commission $172.37			
" B commission $172.37 5% of share	344.74		
" Cash	6,550.06		
" Balance	5,172.20	By Balance 22%	$12,320.00
	$12,320.00		$12,320.00
To 22% Loss and expense of liquidation			
Third month..$340.00	$74.80		
" A commission..$87.28			
" B commission.. 87.29 5% of cash share	174.57		
" Cash	3,316.83		
" Balance	1,606.00	By Balance 22%	$5,172.20
	$5,172.20		$5,172.20

To 22% Loss and expense of liquidation			
" B commission.. 39.55	79.09		
Fourth month.$110.00	$24.20		
" A commission..$39.54			
5% of cash share			
" Cash	1,502.71	By Balance 22%	$1,606.00
	$1,606.00		$1,606.00

D

Dr.		Cr.	
To Drawings	$400.00	By Capital Account investment	$10,000.00
" 15% of loss $8,000....	1,200.00		
" Balance	8,400.00		
	$10,000.00		$10,000.00
To 15% Loss and expense of liquidation			
First month...$400.00	$60.00		
Second month. 750.00	112.50		
" A commission.$117.52			
" B commission. 117.53	235.05		
5% of share			
" Cash	4,465.95		
" Balance 15%	3,526.50	By Balance 15%	$8,400.00
	$8,400.00		$8,400.00
To 15% Loss and expense of liquidation			
Third month..$340.00	$51.00		
" A commission..$59.51			
" B commission.. 59.51	119.02		
5% of share			
" Cash	2,261.48		
" Balance 15%	1,095.00	By Balance 15%	$3,526.50
	$3,526.50		$3,526.50
To 15% Loss and expense of liquidation			
Fourth month.$110.00	$16.50		
" A commission..$26.97			
" B commission.. 26.96	53.93		
5% of share			
" Cash	1,024.57	By Balance 15%	$1,095.00
	$1,095.00		$1,095.00

Problem 4.

It will be noticed that in solving this problem the gross profit has been determined in the trading account without taking into consideration the selling expenses—advertising and traveling. The assumption in this case has been that the advertising as well as traveling expense have resulted in sales both for the house and for the agency. If the facts in the problem were such as to indicate that the general administration expenses *only* were to be apportioned between trading and agency, the results, of course, would be entirely different. The gross profit would then be $416.92 and there would not be any net profit from trading, but, on the contrary, a net loss on trading amounting to $1,545.62. The final net profit from agency and trading would, of course, be the same, $2,907.76.

We are also asked in the problem to prepare a statement which would show the percentages of turnover and commission that the total expenses represent. By dividing the turnover $54,816.19 into the total expense $10,880.24 we find the percentage of turnover to be 19.8485+. By dividing the commissions $10,341.00 into the total expense $10,889.24 we get a percentage of commission equal to 105.2142+. It is noticeable that no reserve has been created for depreciation of buildings or furniture and fixtures, nor has there been created any reserve for bad debts. That, of course, is due to the fact that the problem does not require us to do it.

While the problem does not call for any balance sheet, yet, to prove that the final net profit is correct, we prepare the balance sheet as shown on the next page.

Problem 5.

This problem is an excellent specimen of a situation with which the practising accountant is frequently confronted. Business men when engaged in an enterprise other than their regular calling, invariably fail to exercise that discretion and judgment in the matter of details which they display in their own business, and the problem is an illustration of such neglect, which resulted in the over-payment of dividends for which the directors are liable and would have to refund.

The solution is very detailed in make-up and form and in the case of a mercantile concern would set forth all the essential facts in order that the operations may be brought down to a percentage basis for the purpose of comparison. Here, however, while these requirements are unnecessary, the solution is nevertheless instructive and will afford the student an opportunity of condensing the various statements under general headings and still bring out the points which detailed statements illustrate.

The income and expenditure account, which term is deemed here more appropriate than profit and loss account, is divided into six sections. The first three give the classification of revenue and expenditure incurred in conducting the business, resulting in a total profit of $228,300; sections IV, V and VI show the distribution of profits and payment of dividends unearned, causing a deficit of $51,700.

Problem 6.

In the absence of details and specific technical points of the laws of Illinois relating to insurance companies, the solution may be accepted as correct. The only respect in which one versed in the laws of Illinois relating to insurance companies would change the solution would be in the matter of the reserve. One of these technical details which are contrary to accountancy practice, is the fact that the laws do not permit a company to carry its furniture and fixtures as an asset for the purpose of calculating the reserve but they must be charged off as part of the expense of the year in which profits are earned.

The reserve may be figured as follows: For all business written for one year or less at the risk of any year 50% is considered as being earned (on the assumption that a company doing a regular business has a number of policies having only one day to run, as it has policies that have run but one day), 50% is considered as being unearned. This system is carried out on the second year's business on the same equation of time, viz., if written this year, at the end of the year the proportion earned would be as 6 months is to 24, or one-quarter with three-quarters reserved; and at the end of two years, as 18 months is to 24, with one-quarter reserved.

On this basis the unearned premium for the

First year would be one-half	$7,500.00
Second year, three-fourths	13,875.00
Third year, five-sixths	28,750.00
Fifth year, nine-tenths	26,550.00
Total reserve	$76,675.00

This is merely an illustration as to how, given all the details of the laws of the various states, the reserve may be calculated.

Problem 7.

This problem tests a candidate's ability better than any of the highly specialized questions. It would, perhaps, have been better, if the examiners had made it compulsory. The question calls [in (*a*)] for opening entries and balance sheet of the vendee company. The latter is hardly necessary, as the entries disclose the assets and liabilities. Such requirement only adds additional labor without testing the candidate, excepting, perhaps, for the purpose of the make up, so as to examine his technique.

Though the solution is not in the best possible form, it is an accurate answer to the problem. The solution should show the subscription to the stock, but, in the present case this cannot be done, as the problem is silent about it; an entry, supplying it would be useless, as the subscription could have been for a part of the capital stock only. In showing the

promoter's profit for effecting the consolidation (*c*) the answer is rather elaborate. It not only gives the profit, but traces it step by step from the start to the finish.

A further statement could be shown of the cash transactions of the promoter, which would reveal the fact that the promoter made no cash advances whatsoever. Not until he had succeeded in underwriting the stock did he pay out anything. His net profit is, as shown above, represented by the 100 shares of preferred stock which, from the wording of the question, we assume he retained, or sold at par, his gain being the same in either case.

The problem is also of value for other than the accounting features involved. It illustrates in a concrete manner the method of financing large enterprises which the industrial conditions of the country have called forth by reason of its growth, population and wealth, and the consequent necessity of combinations for the purpose of economic management and operation. For an impartial discussion of the compensation to the promoters of these gigantic undertakings and the risks they assume in underwriting the flotations of these companies, the student is referred to the book on "CORPORATION FINANCE," by W. H. Lough, and similar works.

Problem 8.

The solution to this question follows the sequence of the problem, namely, in showing the liquidation of the firm of A, B and C; the trading account is prepared first in order to show the gross profit realized on the trade proper. This is followed by the interest account, this account being credited for the interest due by B and C, and charged for the interest due to A. The profit and loss account shows against the gross profit carried forward from the trading accounts, to which the unexpired insurance is added, all the other items that would go under this section, including the interest balance of $105.00, which shows a net profit for allocation among the partners of $2,817. This profit is allocated in accordance with the partnership provision of A, B and C. The partners' capital accounts which follow the profit and loss account, as rightly they should, show the respective balance of each partner in the business. This first part concludes the liquidation of the firm of A, B and C. The second part shows the affairs of the new firm, B, C and D. In accordance with the partnership agreement of the new firm, B withdraws the amount of $32.51, this being the excess of $10,000, as per his account; C invests an additional $31.20 to make up the $5,000 which he was supposed to invest; and D invests in cash one-fourth of the capital, namely, $5,000. The cash account is given in order to show the cash balance on hand at the beginning of the partnership of B, C and D. It includes the balance of the firm of A, B and C, and the additional investments of C and D, respectively. On the credit side it shows the withdrawal by B, and also the payment to the estate of A, leaving a balance of $4,762. The balance

sheet, which follows, shows the assets of the new firm as well as their liabilities, including, of course, the bond and mortgage, amounting to $20,000, payable to the estate of A in five yearly installments, and verifies the capital of the new firm.

Problem 9.

The solution gives an analysis of the 1906 transactions, accounting for the cash balance of June 1, 1907, amounting to $832.14, and also for the deficiency amounting to $5,067.72. The accounts for 1907 show the result of the operation, with a credit balance to surplus, amounting to $9,107.16, against which is charged the deficiency during the previous year $5,067.72, leaving a credit balance to surplus amounting to $4,039.44. The comparative balance sheet in accordance with the requirements of the problem shows all the assets of 1907-1908 as well as the liabilities of the same periods, with the respective increases and decreases, accounting for the results shown.

The solution given probably covers more than the problem requires, but from the point of view of the practicing accountant it is not more than what would be expected of him. As a general proposition, the fewer the records the accountant has at his disposal the more analytical his work has to be in order to be enabled to substantiate his findings. In actual practice the various statements here given would all be called for accompanied with schedules and exhibits, and the candidate submitting his solution to the problem as it is here given would have no difficulty in demonstrating that he has had actual accounting experience.

Problem 10.

In solving this problem, all items required in the question should be given in one of the statements, but not necessarily repeated in all. Thus the item of common stock received as a bonus is only shown in Statement "B" and is omitted in Statement "A."

It will be noticed that while Statement "A" shows a profit of $250,000.00, it includes bankers' own share in the syndicate. To this share there is added a profit of $25,000.00, the difference between purchasing price and the price at which the bonds were sold to the syndicate. Deducting this sum the true profit would only be $225,000.00.

The Bond Interest Account is self-explanatory. As the bonds were bought and sold "with interest," the account is debited for the intervening nine days, amounting to $123.29. It is credited for all interest income, including accretions, not due as yet, showing a net profit after one year of $362,536.99.

Statement "B" shows the participants' accounts, that is, the final balance due from each member of the syndicate. As will be recalled no member of the syndicate paid in money. All the necessary funds were ad-

vanced by the bankers. The participants' accounts have been debited for their respective allotments, and they have been credited for respective sales, the difference shows balance of stock on hand and consequently the amount which they owe for such stock remaining unsold.

The Common Stock Account under Statement "B," shows the respective share of the stock bonus given to each member of the syndicate, in accordance with his holding in the syndicate.

Statement "C" shows first the bankers' *estimated* profit on the unsold bonds, the latter being figured at 925, the selling price to the syndicate.

The second part of this statement shows the bankers' profits, earned and estimated. This profit is composed of the following:

Profit on transfer to syndicate	$250,000.00
Bond interest (net)	362,536.99
Estimated profit on unsold bonds	15,237.67
Total	$627,774.66

In figuring these profits it must be borne in mind that there is included $25,000, mentioned above, representing bankers' own participation; furthermore that no interest has been considered on the bankers' outlay for purchase of bonds.

The cash account shows all cash receipts whether for the sale of bonds or receipts of interest, as well as payments for bonds "with interest." The balance of cash on hand belongs to the bankers.

The final statement shows the bankers' profit to have been $612,536.99, in which figures, however, is not included estimated profit on unsold bonds.

The cash account requires some explanation. It will be noticed that although the problem reads that on February 1, 1908, $6,000,000.00 worth of bonds were sold at an average price of 95 and on April 1st $1,000,000.00 worth of bonds at an average price of 94, the student may be led to suppose that the cash book would show the actual amounts received, which in total would average the price stated. As a matter of fact, the amounts entered on the cash book are at the average price of 95 and 94 respectively, and the itemizing of the two lots of bonds is merely to show the ratio which each participant's allotment bears to the total, each participant's account being credited with his proportion of the bonds sold.

This problem is a fit companion to Problem 7, and illustrates the method of marketing securities of industrial corporations. It will be observed that by advancing $9,000,000.00 in cash the syndicate was able to make a profit for the year of less than 7%, that is, on the assumption that the unsold bonds will yield a profit similar to the profit shown on the bonds already sold. As an offset to this small margin of profit, the participants of the syndicate, however, have received as a bonus shares of common stock of the Atlantic Ocean Bridge Company.

Problem 11.

With regard to the solution, the cash book is self-explanatory excepting that it may be remarked that the advances to incorporators are shown under one heading and are supposed to be posted as such instead of individually to each subscriber. The journal entries are arranged to carry out the agreement of the parties in exact order, and the explanations accompanying each entry are sufficient to give the reasons for the records. It will be noted that the advances to the incorporators, as well as the accountant's fees, are charged to the corporation; a procedure which, although not required by the problem, can easily be inferred. Of course, the subscription to the ten shares of stock of each incorporator, as well as the receipt of stock, is left out entirely from the partnership books, and rightly so, as they are not pertinent to the partnership records. It may also be remarked that there are some other records given in the journal entries which do not pertain directly to the partnership affairs, yet as they are required in the problem they are given here. The ledger accounts are presented for the purpose of showing the accounts before and after closing. The heavy-faced type indicates adjustment or closing entries, and presents the accounts in complete form.

Problem 12.

In this problem the Manufacturing and Trading Accounts are combined because the question merely requires the preparation of a Manufacturing and a Profit and Loss Account. As it would not be proper to show sales in a Manufacturing Account, the two (manufacturing and trading) have been combined in order to determine the gross profit realized. It is rather questionable to include the item of traveling expenses in the Profit and Loss Account. This item represents a selling expense and should be included in the Trading Account; but, as the question does not call for the latter, it is entered in the profit and loss account. It is also questionable whether the credit of factory rent, $3,000.00, should go into the first section of the Profit and Loss Account. When the profit and loss account is divided into sections, that item would appear under the heading of "Income from Other Sources." The Balance Sheet is self-explanatory and every item is given in detail.

Problem 13.

It is required in this Problem to show the Realization Account, as well as the Profit and Loss Account of the amalgamated firm. Income and Expenditure Account would perhaps be a more correct term for this statement. The term Profit and Loss Account should rather be used in connection with trading concerns, while Income and Expenditure Accounts should be used in connection with non-trading firms. As the problem em-

phasizes the fact that the firms are professional, the preparation of a Profit and Loss Account would seem inconsistent.

It will be noticed that the division of the net profits is made after all preferentials, in accordance with the wording of the problem, are taken care of by allowing to each respective firm the percentage agreed upon. The accompanying Capital Accounts of the members of each respective firm are self-explanatory.

Problem 14.

The problem is well selected to test the student's knowledge of corporate finance. The solution consists of five exhibits: Exhibit A gives the separate Balance Sheets of the three amalgamating corporations; Exhibit B consolidates the previous individual Balance Sheets, increasing, however, the capital stock by $1,150,000.00, for which a new asset, Good Will, is created. Exhibit C gives us a condensed Trading and Profit and Loss Account of every concern for the last five years, the figures of net profits varying absolutely and also in proportion to the capital stock, the corporation A showing the highest profits on the smallest amount of capital stock, in accordance with the requirements of the problem.

It is now our task to allot equitably the capital stock of the new company. Exhibit D shows the percentage of net earnings on the capital and, if 6% is considered a normal rate of income, the excess of average annual profits may be considered as good will in each of the three concerns. Exhibit E contains the distribution of the capital stock of the new corporation; $350,000.00 are allotted in exchange for the old shares; the balance is distributed in the ratio which the good will of each of the merging companies bears to the total good will, as exhibited under D. It will be noted that under this plan the corporation A receives, comparatively, the highest allotment, its capital being only one-half of B's and one-quarter of C's, but its net earnings were comparatively also higher.

The report accompanying the solution is addressed to the president of the company and states the result of the investigation and the views of the accountant.

Problem 15.

The comments to this problem are practically given in the introduction to the solution. For the benefit of the reader, however, we append another form of solution, as given below:

ACCOUNT SALES

Sales		$45,000
Charges:		
Freight	$1,400	
Claims and allowances	1,500	
Discount—5%	2,250	
		5,150
Net proceeds to shipper's account		$39,850

BALANCE SHEET

Cash	$18,050	Creditors	$1,900
Customers	14,100	Capital	30,250
	$32,150		$32,150

PROFIT AND LOSS ACCOUNT

Discount lost	$400	Discount gained	$2,250
Expense	900	Trading	15,000
Freight	700		
Balance to capital account	15,250		
	$17,250		$17,250

CAPITAL ACCOUNT

		Cash	$15,000
		Profit and loss	15,250
			$30,250

Problem 16.

The solution to this problem may be reached by three methods. The first method, given under Operation A, is a separate valuation of principal (1) and annuity (2); the two added give the present value of the bond. Under (3) we find the amounts of interest, income rate and cash rate, and the premium $2,912.00 to be amortized in three periods.

The Operations B and C arrive at the same result as A, though by different methods; the method under B is the shortest of all. The cash interest received is divided into income and surplus interest and the latter only is valued, being considered as an annuity. The solution winds up with a schedule of amortization showing the varying yearly net income and the amortization which reduces the book value of the bond to par at the date of maturity. The division of profits is a simple matter and calls for no comments.

Problem 17.

In stating this problem an effort has been made to avoid ambiguous terms and phrases. In working out the problem care has been taken to show each item in connection with the operation.

The trial balance presented in the problem is nothing but a collection of the assets and liabilities as well as the proprietorship of the concern on June 30, 1907.

On operation proper the corporation has earned a net profit of $28,991.00, but as the dividends declared, paid and unpaid, amount to $60,000.00, it leaves a deficit for the year amounting to $31,009.00, which deficit has been made up from the surplus of 1907, decreasing that surplus to $35,366.00.

The important principle "Valuation of Inventory" is here clearly shown, inasmuch as the market price of the raw material is on date of inventory $24.00 per ton, while the cost of the material is stated at $22.00 per ton. The same principle is illustrated in the item of land, which, while its present value is estimated at $300,000.00, is nevertheless carried at its original cost of $270,000.00.

It will also be observed that in stating the payment of interest on bonds the premium is deducted from such interest. This is based on the principle that the premium that the company received on the sale of the bonds is nothing else but a reduction of the rate of interest, and therefore one-fiftieth of that total sum of permium or $400.00 is deducted each year from the interest charges.

The dividend declared on preferred and common stock respectively, but unpaid at the present, is treated as a liability. According to the wording of the problem this dividend has been declared, but is not payable until August, and hence a liability at the present.

It will be noticed that the current reserve for bad debts ($7,716.00) has been deducted on the asset side from the item accounts receivable. The general reserve for bad and doubtful debts accumulated during previous periods, less the amount of actual losses from bad debts, is entered on the liability side of the balance sheet. The result would be the same if both reserves, current and general, were deducted from the accounts receivable.

Problem 18.

In the solution the realization and liquidation account is prepared in the ordinary form, showing on the debit side the assets to be realized and omitting the item of cash as this is already realized. Comparing the total of this heading with the totals of the headings "Assets Realized" and "Assets Not Realized," we find a difference of $103,500.00. In this balance is included, of course, the item of Materials and Supplies amounting to $95,000.00. Eliminating this item from the debit side (assets to be realized) there is a difference of $8,500.00, which represents the loss on the realization proper, viz.: $8,000.00 by reason of bad debts written off, and $500.00 by reason of discounts and allowances on customers' accounts prior to January 1, 1908. In the problem, however, this difference was not carried out, but the supplementary charges and the supplementary credits respectively have been added and the net result of the trustee's operation shown in one sum.

In the trustee's operations proper, under "Supplementary Charges" and "Supplementary Credits," is shown the result of his operations, viz.: To the total under supplementary charges, $356,695.00, is to be added

the item of $3,000.00 for materials consumed from the inventory, making a total of $359,695.00. Against this the total of supplementary credits, after all the deductions are made, amounts to $338,135.00. That gives a loss on the trustee's operations, of $21,560.00. If we add to this the $8,500.00 lost on the realization proper, we get a total of $30,060.00, as shown in the last item on the credit side of the realization account. Under payments, the problem gives purchases of materials and supplies as $98,000.00. However, as under the item of notes given to creditors the amount of $180,000.00 is given, and the renewals are only $110,000.00 we must conclude that $70,000.00 worth of material was bought on notes; hence, the figure of $168,000.00 under purchases of materials and supplies, in the Supplementary Charges.

The balance sheet proves the condition shown by the realization and liquidation account. The item of cash is determined by adding to the difference found by subtracting the payments from the receipts, the balance of $450.00 on hand at the beginning of the trusteeship.

The item of notes receivable is found by subtracting the cash amount received, $13,500.00, from the item $20,000.00, "notes received from customers." In the same way the items of accounts receivable, notes payable and accounts payable are determined.

The items "accrued interest" and "accrued taxes," although charged as expenditures for the trusteeship, have not as yet actually been paid and are treated as *deferred* liabilities.

Problem 19.

The transactions of the Association and of the Club are numerous but presented clearly so that the solution is not difficult and requires no explanation. The journal of the association, in which also the cash transactions are entered, contains a detailed record of its incorporation, its deal in real estate and of the mortgage. The journal of the Fairview Club contains the records of its organization by the association and its transactions, viz., dues received, assessment of members and expenses, resulting in a deficiency of $4,500.00. All entries are posted to the ledgers and the final Balance Sheet proves the correctness of our books.

Problem 20.

A.—On closing entries in books of Jones & Jackson:

By drawing proper ledger accounts, it may readily be seen that all of the old accounts in the books of Jones & Jackson, as well as the new ones necessary for the adjustments, are now closed. But two items deserve special mention, viz., the drawing account and the division of good will. As it is not usual for stockholders to have drawing accounts in their companies, or, in cases of this kind, to treat debit balances in such accounts as assets, it appeared desirable to close them into their corresponding

capital accounts. Regarding good will, the partnership law provides that all profits of a co-partnership, in the absence of a special agreement, are to be divided equally between the partners. Good will represents a profit on sale to the corporation; hence, the equal division shown.

B.—On opening entries in the books of the Consolidated Manufacturing Company:

The "good will" item of $714,000 among the assets of the Independent Manufacturing Co. consists of the original item as per balance sheet submitted ($50,000), plus the item of good will created by the consolidation ($664,000).

"Reserve for Working Capital—150,000." It is true that no definite value can be assigned to the treasury stock contributed by the stockholders, for this value depends upon the future price. But as we can easily adjust the amount by subsequent entries at the time when the stock is disposed of, the objection just raised need not be considered any further.

Inasmuch as only $20,000 was realized for $50,000 of stock, the reserve account or working capital has suffered a decrease of $30,000, hence the adjustment, previously referred to, is now made.

A very interesting question is raised by the next transaction involving the disposal of bonds at a discount. Undoubtedly, had no stock been offered as a bonus, *less* than 90 would have been realized. Why, then, should not the value of the stock (say about $30,000) be charged to Discount on Bonds Account, leaving only the balane ($45,000) to reduce the amount of reserve for working capital? I think this latter solution the better one, though perhaps less usual. The entry becomes:

Cash	$450,000	
Discount on bonds	80,000	
Reserve for working capital	45,000	
To first mortgage bonds payable		$500,000
Treasury stock		75,000

If this suggestion be adopted a few changes would be necessary in the final balance sheet, viz.,

Discount on bonds, debit	$80,000
Reserve for working capital, credit	75,000

In case the bonds were issued for some specific construction purpose, Construction Account might be charged instead of Discount on Bonds Account, as shown. In either case, the item should not be carried as an asset indefinitely, but should gradually be reduced.

Problem 21.

The problem is practical and interesting from every point of view and contains enough matter not only to test the candidate's knowledge of the subject matter, but also to see how far he will go in anaylsis of similar propositions, and what his conclusions would be.

The solution supplied here is purely technical. The first Balance Sheet gives all assets and liabilities in detail; the condensed Balanced Sheet contains the same assets and liabilities by groups, and the securities pledged and held in escrow are deducted. There is the same distinction also between the two Income Accounts, the first one giving the various sources of income and the various expenditures in detail, while the second statement proceeds by groups of accounts; the results are, of course, identical.

It will be noticed that the problem calls also for a written report of the financial problems presented by the question; he would have to call the attention of his client to the various things suggested by a close investigation, viz., a comparison of the inefficiency of the working assets against the current liabilities; the inefficiency of the power plant, with suggestions as to the possible savings in fuel cost by the installation of more modern machinery; discussion of the overcapitalization of the proposition; reference to the lack of provision for depreciation; the possibilities of a receivership or of a reorganization in the light of the possible inability to pay the fixed charges and the current obligations out of current net earnings.

Problem 22.

This problem is rather simple. The principles involved are the correct result as to profits and the relations of the partners to each other. The Profit and Loss Account is so arranged as to show first the actual result; it is then closed out by charging each partner for his share of loss and crediting the Profit and Loss and crediting the account for the total.

The partners' capital accounts show the relation of each partner to the other. A and C have each overdrawn their accounts, respectively. The former to the extent of $1,187.50; the latter to the extent of $525, making a total of $1,712.50. This amount is due to B, as his account shows a greater investment than the loss and drawings amount to.

Problem 23.

The solution to the problem consists of three exhibits; namely, the operating account, property account and the Balance Sheet. The operating account is arranged in such a form as to show on the debit side the original cost of the property, plus the selling and administration expenses. Against this the sales are shown on the credit side, resulting in a loss for the year 1906 amounting to $8,452.82. This loss, in accordance with the wording of the problem, is carried to the property account.

By adding up the interest on the capital invested in the lots, as well as the losses sustained during 1906, and distributing it over the remaining lots unsold at the beginning of 1907 the book value per lot is shown to be $426.01. We therefore debit the operating account in 1907 for the book value of 160 lots sold at $426.01, to which is added the selling

and administration expenses, making a total of $83,814.85. Against this is shown on the credit side the amount realized from the sales of 160 lots, also the interest received, plus that which is accrued by the end of the period, making up the sum of $83,361.00. We also add on the credit side the transfer of $4,161.60 from the reserve for earnings on investment, which represents the credit in current earnings for the amount burdened on the property account, realized by sales of 160 lots at the burdened figure of $26.01. The total credit side then shows $87,522.60, leaving a balance of $3,707.75 which represents the profit for 1907 and which is transferred to the property account in accordance with the wording of the problem.

The reserve for earnings mentioned before represents the annual charges made to the property account for interest on capital remaining invested, at the rate of 4% per annum, plus any deficit shown in any year. The offsets against it are profits realized, also any transfer to the property account by reason of realizing any portion of the amount burdened to the latter account.

The property account shows on the debit side the purchase of the property, against which, on the credit side, is entered the record of the sales at cost. The remaining balance is carried forward to the next period. In 1907 the account is also charged with the interest on the original investment, and the loss sustained on operation in 1906, against which the sale—at cost—is credited, the balance being carried over for the next period. To this balance is added again the interest on the remaining balance ($376,000) while on the credit side is entered the amount of profit realized on the operations of 1907, resulting in a balance to the property account of $343,623.47. This balance represents the book value of the 780 lots remaining unsold on January 1, 1908. The balance sheet is arranged to show the exact condition of affairs and therefore the amount set aside as a reserve for earnings on investment is deducted from the property account, and results in a balance to that account of $312,000, which, of course, is the original cost of the 780 lots remaining unsold. This results in a deficit of $4,475.07 and is so shown.

Problem 24.

The solution to this problem covers more than is required in the question, which only calls for a statement of profit and loss and income, while the solution in addition to the profit and loss statement gives also the balance sheet, showing the financial condition of the firm, and at the same time verifying the results shown on the income and profit and loss statement.

It will be noticed that no provision for the depreciation of the fixed properties has been made, nor has any reserve been set aside for bad and doubtful debts, for two reasons; first, because the values of the fixed property represents inventory valuations, and second, because the problem does not require any provision to be made.

Otherwise the grouping in the profit and loss statement calls for no comments; the gross sales are decreased by the amounts of items, intimately connected with sales, giving net sales, from which the total cost of manufacture is deducted. The result is gross profits; if we subtract from it the selling expenses we get the selling profit. From here follows the actual profit and loss statement, the foregoing being rather in the nature of a manufacturing and trading section. To the net profit, which is obtained after deducting the administration expenses and other charges, we add the former surplus, thus giving us the total amount available for distribution.

Problem 25.

Regarding the solution to this problem, we think that it covers a good many points which are not required by the question, and on the other hand omits certain conditions which should be shown. In addition, therefore, we submit another solution which we think complies better with the conditions given in the problem:

STATEMENT

Showing the Settlement between partners at December 31, 1909

Assets:		
Cash		$804.20
Accounts receivable		2,240.00
Investment, original value	$12,000.00	
Less shrinkage, ¾ of $2,700.00	2,025.00	9,975.00
Commissions receivable (earnings on future shipments, minimum guaranteed)		15,000.00
		$28,019.20
Profits:		
Partners withdrawals:		
A	$2,000.00	
B	10,370.00	
C	3,350.00	
	$15,720.00	
Assets remaining	28,019.20	
	$43,739.20	
Deduct original investment	20,000.00	
Net profit	23,739.20	

A, B AND C.

Balance Sheet as at January 1, 1910.

Assets.				Liabilities.	
Cash		$804.20		Notes Payable	$27,747.04
Accounts Receivable		2,240.00		**Proprietorship.**	
Investment	$12,000.00			C's Capital Account	14,145.68
Less reserve for shrinkage	2,025.00				
		9,975.00			
Commissions Receivable:					
Earnings on minimum sales contracts		15,000.00			
			28,019.20		
Good will			13,873.52		
			$41,892.72		$41,892.72

A's. Capital Account

1909			1907		
December 31,	Cash drawings	$2,000.00	July 1,	Cash investment	$5,000.00
	Notes payable	17,869.60	1909		
			December 31,	One-fourth of profits	5,934.80
				Good will allowance	8,934.80
		$19,869.60			$19,869.60

B's. Capital Account

1909			1907		
December 31,	Cash drawings	$10,370.00	July 1,	Cash investment	$7,000.00
	Notes payable	9,877.44	1909		
			December 31,	Seven-twentieths of profits	8,308.72
				Good will allowance	4,938.72
		$20,247.44			$20,247.44

C's. Capital Account

1909			1907		
December 31,	Cash drawings	$3,350.00	July 1,	Cash investment	$8,000.00
	Balance	14,145.68	1909		
			December 31,	Two-fifths of profits	9,495.68
			1910		
			January 1,	Balance	14,145.68
		$17,495.68			$17,495.68

Problem 26.

In solving the problem the royalties accrued are regarded as a reduction on the purchase price. The question reads: "The patent was subject to royalty rights granted to the Novelty Company, which terminated at date of purchase. All accrued royalties were to pass with patent and no royalty rights were granted by the Patent Specialty Company." The royalties mentioned in the problem as having been received and accrued to December 31, 1907, must have been those which were accrued on August 20, 1907, and therefore form a reduction on the purchase price.

It is rather questionable whether the complementary credit to real estate donated should be "surplus." This company has done no business as yet and therefore has no profits for distribution as dividend, which is possible by means of the credit balance that is shown to surplus. A better method, perhaps, would be to credit it to a "reserve" account, properly ear-marked.

There is no account except "Organization Expenses" to which the insurance, salaries, etc., could have been charged. As there are no operations as yet, all the expenses incurred are for the purposes of organization; therefore a charge to this account is proper.

Problem 27.

The solution provides that a portion of the interest collection be credited to the Bond Account as part of the principal, so that at maturity the balance of the Bond Account will equal the face value of the security. The problem does not require this specifically, but in order to render a scientific solution to the question, the premium paid at purchase of the bonds is amortized out of the interest receipts. The principle involved is that bonds as a rule are never perpetual, nor do bonds run for less than one year; moreover, the purchase price is never the same as the face value of the security, the bond is bought either at a premium or at a discount. If at a premium as in this problem, a portion of the semi-annual interest received must be regarded as part payment of the principal and a reserve set up in a separate account, or, as treated in the solution, deducted directly from the bond itself. The Analytical Single Column Schedule illustrates the arithmetical operation involved, the period being short the process is comparatively simple, but if the security does not mature for a great many years, the arithmetical operation is somewhat complicated and logarithmetic tables have to be employed in the solution.

In instances where the securities are purchased at a discount, the cash interest received is regarded as only a portion of the yield, the remainder being deferred until the maturity of the security, in which case the Bond Account is debited and the Interest Earned Account credited.

Problem 28.

Although $7,000 has been received from the Insurance Company for the stock in hand at the time of the fire it has not been credited to Insurance Adjustment account. It is assumed that same was credited to Sept. sales not allocated.

The question states that cash was received from September sales amounting to $13,500. Allowing $7,000, as above, there remains a balance of $2,675 to be debited to some account. This might have been debited to Reserve for bad debts, but as the balance to credit of the account is equal to over 6% of the accounts receivable outstanding it is hardly likely that this could have been done. It may have been written off the Profit and Loss Surplus, but this course would have been unusual. It is therefore assumed that the situation was as follows: September sales records have been destroyed, yet there is a figure in the trial balance under this heading. It is therefore most likely that the method of the Richardson Engraving Company was to debit the customer at the time the charge was incurred and to credit the appropriate revenue account at the end of each month. The balance of accounts receivable would thus include the amounts unpaid for September sales as well as all other unpaid terms. This is further borne out by the fact that the allocated sales were $176,950 and unallocated sales $23,175, while the outstandings from customers amount to $19,640 consisting of $16,965 on allocated sales, and $2,675 on unallocated sales or about 9 and 11% respectively. As the unallocated sales are of more recent occurrence it seems reasonable to assume that these percentages are accurate and support the supposed methods.

It will be noticed that the credit side of the trial balance given adds $293,820 not $292,820. Candidates were instructed to reduce one of the credit items by $1,000 and we have therefore reduced the unallocated September sales by this amount.

Problem 29.

This problem is a fair specimen of the work set for the candidates at the Intermediate Examinations of the Institute of Chartered Accountants. The problem is exceedingly simple, in fact, much more simple than the corresponding problems set by the New York State Board of Regents for candidates taking examinations in Advanced Bookkeeping. The solution consists of the Profit and Loss statement, Journal entries and the partners' drawing and capital accounts, which is more than what one would be led to assume from the wording of the question. In a problem of this kind, bearing in mind that the candidate's general ability is tested, the inclusion of all the statements showing properly the apportionment of the profits, is advisable. The problem is more of a test in accounting technique than anything else.

Problem 30.

An accurate solution to this problem, which should correspond in every detail to the official solution, would be probably the result of mere chance rather than hard work, for the reason that many little and intricate details which are of sufficient importance to change the aspect of some of the statements and which would be easily apparent to the man engaged on the work itself, are either left out of the problem, or are not sufficiently emphasized to assist the candidate to an absolutely accurate solution. Illustrations in point are the necessity for arbitrarily dividing the inventory at the beginning to give the problem some semblance of plausibility, and a further improbability is the absence of inventory of coal and lumber at the close of the period, and such similar details. With this qualification, however, the solution here submitted is correct in every phase of it, and the candidate presenting such a paper would have the satisfaction of knowing that he has proved to the examiners his ability as an experienced accountant. The difficulty of the problem lies chiefly in its length and in the numerous conditions involved while a candidate for the degree, pressed for time and desirous of presenting a neat paper, is likely to overlook some of the minor requirements.

The accompanying journal entries are not called for in the problem, but are given so as to show the complete entries on the books of the corporation.

THE GUNSAULUS CORPORATION
LUMBER DEPARTMENT BOOKS
JOURNAL ENTRIES

The entries which follow are made in accordance with an agreement made this day by and between The General Manufacturing Co., Inc., and The Gunsaulus Corporation, and others, whereby The General Manufacturing Co., Inc., agrees to take over the lumber business of this company (with certain reservations and upon certain conditions) as by reference to the particular agreement will more fully appear:

General Manufacturing Company	$469,646.81	
To Sundry Assets (transferred)		$469,646.81
Sundry Liabilities (assumed)	11,496.24	
To General Manufacturing Company		11,496.24
Surplus	82,982.92	
Losses sustained and allowance made in sale of lumber business (To Sundry Assets)		82,982.92
Allowance made from book value of Mill Plant	74,982.92	
Accounts Receivable Uncollectible	8,000.00	
Deficiency	39,986.67	
Net excess of losses over gains.		
To Surplus		39,986.67
To close the latter account.		

NOTE:—The entries to be made upon the books of the General Manufacturing Co., Rock Lumber Co., Severn River Lumber Co., are not given, since they are not asked for.

Problem 31.

This problem is from the English Final Examination Papers of the Institute of Chartered Accountants, held in December, 1910. The difficulties presented by the problem are rather slight compared with the examination papers of the different state universities, yet the problem is not devoid of pitfalls, which lie principally in the calculations involved for the conversion of the currencies. The rate of exchange is given as 2s. 4d. to the dollar. The student with only the problem before him is apt to jump to the conclusion that the rate of exchange is a misprint, and thereby wastes considerable time in trying to find a common item, in the two statements given, in order to verify the rate. The superiority of the English papers lies principally in the test they present of the candidate's general education and intelligence, which is wanting in a great many of the American papers. The heading of the problem reads: Trial Balance of the London Office of a Rubber Company. Now, rubber is not raised in any part of the United States or any of its possessions where the United States coins circulate; hence, the inference must be drawn that the dollar sign stands for Mexican currency, which is quite correct.

The statements presented in this solution fully cover all the requirements, and, but for the calculations involved in the converting of the moneys, the problem is easily solved.

Problem 32.

Though simple, the problem tests effectively the student's knowledge of mining accounts. The solution shows the classification of the revenue accounts so as to bring out (1) the cost of mining, (2) the cost of preparation, (3) gross profits, (4) net profits, (5) cost per ton, and (6) net earnings per ton. In the Balance Sheet all fixed assets are grouped under the heading of Plant Accounts, and are placed first, being the most important item in the statement. Among the deferred assets there is a balance of the Royalty account, part of which is charged to the Profit and Loss account (132,300 tons @ 20c), the remainder being carried as an asset to the next period.

Problem 33.

In solving this problem, the interpretation is based on the wording of the problem. As there are only eight subscribesr to the Capital Stock of the Company, a controlling account, under the heading "Subscribers," is debited for the full amount of the subscribed stock, and the Capital Stock account is credited. It will be noticed that the initial memorandum dealing with the legal existence of the Company, etc., is embodied in the explanatory matter to the opening entry in the Journal of the United Manufacturing Company.

No other entries are given affecting the United Manufacturing Company that cannot be properly called opening entries. Thus it will be seen that while accrued wages and dividend payable appear on the liability side of the Balance Sheet of the United Manufacturing Company, no entry is made to provide for that.

The Consolidated statement is so arranged as to prove and agree with the results shown in the Balance Sheet.

The percentage table is prepared after adjusting all possible inventories, etc. In other words, as the heading indicates, consumption is the basis.

Problem 34.

The solution to this problem will be of interest to the reader on account of the difference in treatment of some of the items. Thus it will be noticed that freight and express outward is deducted from sales rather than listed in some other section of the statement. It will also be noticed that depreciations, on buildings as well as on machinery, are charged in a section prior to determining cost of goods produced. In other words, considering it an element in the cost of goods manufactured. This the reader will find to be in opposition to some of the arguments recently advanced by accountants that such items be excluded in determining cost of goods manufactured. There are a number of other items that the reader will find worth while to analyze carefully and contrast them with similar ones in other solutions, thus benefiting himself by becoming familiar with all possible views.

Problem 35.

The wording of this problem is not quite clear. It reads " . . . the insured claims his loss is 42½% of the prime cost of his goods; . . . the percentage claim is adjusted at that figure." It would be a rather difficult task to determine the total prime cost in this case, and if determined it would not be equal to the percentage given (42½). The only possible interpretation of the meaning of prime cost in this case is that it embraces, in addition to the usual elements, raw materials and productive labor, also manufacturing expenses. It is on that basis *only* that the problem can be solved, and that is the method adopted in the solution.

Another element which the problem does not mention is that of depreciation. As no provision has been made for that item we take the arbitrary percentage of 10% on the declining balance, and by means of this determine the amount of the adjusted loss.

As this is a very important and at the same time instructive problem we present another solution. Though the second solution arrives at the same results as the first one, and though the value of the assets destroyed is here also determined by analysis and comparison, there are several noteworthy differences in which the reader will be interested.

SOLUTION (SECOND FORM).

Prime cost is here to be understood to mean: (1) Raw Materials, (2) Productive Labor, and (3) Manufacturing Expenses.

It is necessary to a clear understanding of this problem to ascertain the average amount of raw materials, productive labor and manufacturing expenses used up in the goods actually sold from the last time inventory was taken; for this purpose, therefore, the figures for the three previous years are given amongst others. Using these we find the following:

RAW MATERIALS ACCOUNT.

	1906.	1907.	1908.	
Inventory at beginning.....	$39,223.16	$31,316.20	$33,416.20	
Purchases	186,320.16	104,360.22	157,316.20	
Total	$225,543.32	$135,676.42	$190,732.40	
Less Inventory at close....	31,316.20	33,416.20	32,467.18	
Consumed	$194,227.12	$102,260.22	$158,265.22	$454,752.56

PRODUCTIVE LABOR ACCOUNT.

1906—Amount paid therefor..................	$90,322.24	
1907—Amount paid therefor..................	61,212.06	
1908—Amount paid therefor..................	72,106.14	
		$223,640.44

MANUFACTURING EXPENSES.

1906—Amount paid therefor..................	$20,163.12	
1907—Amount paid therefor..................	16,208.17	
1908—Amount paid therefor..................	20,216.23	
		$56,587.52

SALES ACCOUNT.

		Deductions.		
	Gross Sales.	Allowances.	Returns.	Net Sales.
1906	$386,924.12	$1,116.24	$8,614.08	$377,193.80
1907	217,306.01	3,605.75	4,106.18	209,594.08
1908	321,672.18	975.00	3,167.22	317,529.96
	$925,902.31	$5,696.99	$15,887.48	
	21,584.47			
	$904,317.84			$904,317.84

Average Per Cent. of Raw Materials used in goods actually sold	$454,752.56	
	$904,317.84	50.28%
Average Per Cent. of Productive Labor in goods actually sold	$223,640.44	
	$904,317.84	24.73%
Average Per Cent. of Manufacturing Expenses in goods actually sold..............................	$56,587.52	
	$904,317.84	6.25%

Component Elements of Costs in Prime Costs.

	Per Cent. to Selling Price.	Per Cent. to Prime Cost.
Raw Materials	50.28%	61.88%
Productive Labor	24.73%	30.43%
Manufacturing Expenses	6.25%	7.69%

The same percentage will prevail in goods in process and made-up goods.

Arriving now at the period where the fire loss occurs, we note that the last inventory taken was on January 2, 1909.

Analysis of Inventories, January 2, 1909.

	Raw Materials.		Component Elements of Goods in Process.	Component Elements of Made-up Goods.	Total.
Raw Materials	$32,467.18	61.88%	$2,606.52	$12,223.45	$47,297.15
Productive Labor ..		30.43%	1,281.78	6,010.98	7,292.76
Manufacturing Exp.		7.69%	323.92	1,519.04	1,842.96
	$32,467.18		$4,212.22	$19,753.47	$56,432.87

Statement of Goods on Hand May 1, 1909, When Fire Occurs.

	Raw Materials.	Productive Labor.	Manfg. Expenses.
Inventory Jan. 2/09, as above.........	$47,297.15	$7,292.76	$1,842.16
Purchases, and labor expenses to May, 1909	46,375.22	21,618.06	5,167.20
	$93,672.37	$28,910.82	$7,010.16

Deduct:				
Consumption in Net Sales of	$93,237.19			
Materials 50.28%		$46,879.66		
Labor 24.73%			$23,057.56	
Mfg. Expenses.. 6.25%				$5,827.32
Inventory at May 1/09: Total, $53,828.81. Consists of......		$46,792.71	$5,853.26	$1,182.84

RECAPITULATION.

Productive Labor as above, 24.73%, on Sales or on Prime Cost..............................	30.43%	$5,853.26
Manufacturing Expenses as above, 6.25%, on Sales or on Prime Cost..........................	7.69%	1,182.84
Raw Materials therefor..............................	61.88%	11,421.67
Cost of Goods in Process......................	100.%	$18,457.77
Value of Raw Materials, per Statement of Goods on Hand at May 1/09........................	$46,792.71	
Less Consumed in Goods in Process........	11,421.67	35,371.04
TOTAL VALUE OF STOCK, as above.................		$53,828.81

Loss adjusted being 42½%, we find same to be $22,877.24. The rest of the solution is the same as the original.

This form of solution is, as will be seen, briefer, the terminology simpler, and the percentages, used in the recapitulation, show more plainly how the amounts for raw material have been arrived at.

Problem 36.

This is a very simple problem and consequently the solution does not bring out extraordinary features. As will be seen, some of the balances are of a nature that at a glance it is hard to tell whether they are debit or credit balances, for instance: Discounts and Allowances or Commissions. In solving a problem of this kind it is therefore advisable to list first all balances about which there can be no question and then proceed with those about which there is a doubt. A good guide in such cases is the division of the total by two; this will give the total debit and credit. It then remains only to re-arrange doubtful balances. The classification is the same as in other similar problems.

Problem 37.

The problem is solved in accordance with the law of the State of New York, which is fairly representative of the laws of all the States of the Union. The examiners require here only a statement, showing the "corpus" to be dealt with by the executors, without distinguishing between principal and income; in the solution, however, the items are so grouped as to exhibit separately the two kinds of charges. It will be noticed that the value of the real property is omitted from the statement,, in accordance with the law which does not consider freehold property an asset to be disposed of by the executor, unless ordered to do so by the will. The revenue from the bonds and real estate is divided into principal and income according to the data of the problem.

The problem, not being in itself complete should be studied in connection with problems No. 2 and No. 39; only then can the student get an idea of the schedules required for executors' acconnts.

Problem 38.

This problem compares favorably with a similar problem set by the Board at the June, 1907, examination.* It is a very simple yet logical test problem. In fact, it is the simplicity that makes it desirable for tests of this character.

The solution to the problem is self-explanatory with perhaps one or two exceptions. The figures, as disclosed on January 1, 1910, are debited to the respective accounts, and the total—unpaid wages excluded—is credited to the Main Office account under "sundries." The unpaid wages are credited in the Wages account and the Main Office account is debited for the accrued figure.

The loss sustained on the replacement of machinery is charged to the Main Office account, and credited to "Capital Accounts." As the factory books deal with the cost of materials consumed, etc., and not with all operations, this is the only logical method of treatment of this item.

The solution is not at all difficult to the experienced accountancy student. The facts given are quite clear, and the candidate needs only follow the steps from the opening Trial Balance, which he is expected to have constructed, to the closing one to arrive at the correct result. There are several novel points to this problem; in the treatment of the factory as a separate entity in so far as its operations are concerned, and also in the calculations for overtime, which, while on the surface appear as rather involved, are nevertheless very simple. The operatives' overtime is at an average rate of 45c. per hour payable on a basis of 2½ hours overtime as the equivalent of 3½ hours regular time. This rate for overtime is according to recent schedules enforced by Trade Unions in New York City, and on a percentage basis is equal to exactly 40% of the regular time. There are several other accounting features involved in the problem which are very distinctly brought out in the solution, and which the reader will do well to study carefully.

* Accountancy Problems, Volume 1, page 97.

Problem 39.

This problem is rather lengthy—as all estate propositions are bound to be—and therefore it calls only for a summary, but not for schedules.

The solution is so arranged and worded as to make it clear and comprehensive.

In Statement (b) in determining each legatee's share, the balance of $164,595.78 was taken as the basis for distribution; from the distribution share was deducted each legatee's advances.

In Statement (c) it will be noticed that the specific money bequest to the "A" Hospital was deducted. This is based on various court decisions where it was held that: "No compensation can be allowed an executor for receiving or delivering a specific legacy." Schenck *vs.* Dart, 22 N. Y. 420; Matter of Robinson, 37 Misc. 336.

That a money legacy can be made specific is indicated by the decisions in the matter of Getman, 128 App. Div. 767 and Matter of Delancy, 133 App. Div. 409. In the above cases it was held that when the money is described by the testator so as to enable the legatee to point it out to the executor as in a particular place, chest, bag or purse, or in some person's hands, so that it can be delivered in specie, it is a specific legacy.

In view of the fact that the testator left $69,250.00 in cash with banks or on hand and the problem reads that the bequest is specific, we take it for granted that the money must have been clearly indicated in the will and therefore do not allow commission on it.

Problem 40.

This problem illustrates the modern idea of consolidation, as well as the purchasing of assets by means of a stock and bond issue.

The solution is very simple and self-explanatory. There are, however, two things worthy the careful attention of the reader, namely: the method of treating the doubtful accounts receivable and the treatment of treasury bonds. In the case of the former a separate entry is made for the doubtful accounts instead of amalgamating them with the accounts considered good. In the case of the latter the entire authorized issue is placed on the books and so is also the corresponding liability on the mortgage. This is based on the theory that the borrowing corporation has issued a mortgage in favor of a third party as trustee for all bondholders and this trustee is the legal *lender* to whom the corporation is liable; hence the debit to Treasury Bonds and the credit to the Mortgage Payable.

PART II.

Following are selected questions with answers on each of the following subjects: Theory of Accounts, Auditing and Commercial Law. The questions are selected from the New York, Rhode Island, Illinois, Michigan, Maryland, Ohio and Florida.

Theory of Accounts.

Questions.

(1) A has exhausted his credit with B. He needs further accommodation to the extent of $2,500, to obtain which he gives B a three months' draft on C for $2,500. This is $1,000 more than C owes A. To adjust this difference C draws at four months on A for $1,000. Assuming that the drafts have been accepted by the respective parties, state what entries his books would show.

(2) Mention the methods of bookkeeping in general use. What books are ordinarily kept in each case? How is the profit or loss ascertained by the different systems?

(3) Devise a system of accounts for an executor. What accounts must he necessarily keep?

(4) A merchant draws a draft of $1,000 at four months, on a customer who owes him an open account and the draft is accepted on February 2, 1909. On March 13, 1909, he discounts the draft at the bank at 6% per annum. What entries should be made on the merchant's books to record the transactions properly?

(5) How would you deal with items accrued and due (such as rent, commission and salaries) when closing the accounts of a business at the end of a fiscal period?

(6) What is a contingent liability? Give examples. In what forms should liabilities appear in a financial statement?

(7) Give the ruling of a stock or shares ledger for a corporation. Show how this book is kept and indicate its relation to the general books of account.

(8) Describe two methods of treating depreciation of machinery on both the books and the balance sheet.

(9) State what constitutes contingent assets and contingent liabilities. Give three illustrations of each. State whether or not, in your opinion, they should be represented in the books of account and whether or not they should appear in the balance sheet of a going concern. if so, in what manner?

(10) What, in your opinion, would be the proper accounting record for a business corporation to make of an appropriation from its surplus profits for the amount of a permanent investment in property?

(11) Define the following terms as applied to accounting: (a) nominal, (b) accrued, (c) deferred, (d) net profit, (e) capital.

(12) Explain fully in what way, if at all, the following should enter into trading and profit and loss statements, with reasons for inclusion or exclusion: (a) partners' salaries, (b) profit on sale of real estate, (c) partners' drawings, (d) overvaluation of opening inventory, (e) estimated losses in realization of trading assets.

(13) Explain method by which the net result of a double entry profit and loss account may be proved by use of resources and liabilities.

(14) Submit *pro forma* entries covering an incidental shipment of goods to a factor, prepayment of freight, receipt of advances, receipt of account sales with cash to cover balance due, and closing of account.

(15) Define (a) scrip, (b) stock right, (c) amortization, (d) depreciation, (e) consolidated balance sheet.

(16) A mortgage provides for a sinking fund to be accumulated in the hands of a trustee from profits prior to dividend payments. Prepare skeleton balance sheet to disclose the state of the fund, dividends declared and payable, appropriation of profits for purpose of the fund and an unappropriated surplus. What effect would losses in excess of such unappropriated surplus have on the sinking fund?

(17) State and differentiate, for balance sheet purposes, the rules of valuation that apply in the following: (a) long time bonds bought at a premium for investment, the market value of which has advanced, (b) dividend-paying stocks bought for investment, the market value of which has declined, (c) long time bonds bought at a discount for speculation, the market value of which has advanced, (d) real estate (land) that has appreciated.

(18) State fully reasons for or against the use of cash receipts and payments on account of trading, as a basis for imposition of a tax on corporate incomes.

(19) Define (a) revenue balance sheet, (b) work in process, (c) by-product, (d) deficiency account in insolvency, (e) final accounting.

(20) Show the method and the advantages in cost accounting of the process of articulating the general ledger, factory ledger and stores ledger by summary accounts.

(21) State the powers of the Public Service Commissions in respect to the accounts of common carriers. What supervision is exercised over additional issues of notes, bonds and stocks?

(22) Outline accounting procedure necessary to prepare schedules in bankruptcy under the United States Bankruptcy Act. State schedules in their order and give substantially what each should contain.

Theory of Accounts.

Answers.

JOURNAL ENTRIES IN A'S BOOKS.

B.	$2,500.00	
To C.		$2,500.00
For a three months' draft drawn on C in favor of B.		
C.	$1,000.00	
To Notes Payable.		$1,000.00
For a four months draft drawn by C on me which I have accepted.		

A'S LEDGER.

B

To C's draft $2,500	By Balance $0,000

Notes Payable

	By four months acceptance $1,000

C

To my acceptance $1,000	By draft in favor of B $2,500

NOTE:

No entry is shown for the additional credit given by B to A for the purpose of which the accommodation paper was made as we do not know what account to debit. We also follow the assumption that A submitted his draft to B, who presented it himselfto C for a cceptance.

(2) There are two fundamental methods for recording exchanges, or business transactions; namely, single and double entry. Where the books are kept upon a partial or incomplete system of bookkeeping they are said to be kept by single entry. Double entry bookkeeping is that method of bookkeeping by which the accounts are kept with all kinds of values received or disbursed. It is assumed that each individual exchange has a two-fold effect. When this two-fold effect is expressed on the books we speak of it as bookkeeping by double entry.

With regard to the books employed there is hardly any difference, regardless of the system that is employed. A firm may have an elaborate set of books and yet keep the accounts on the single entry system. On the other hand it may have but a journal and ledger yet, as all the facts and transactions, expressing the two-fold effect of each exchange would be recorded, it would be on the double entry principle. The books, of course, would vary and would depend on the line of business and the details that have to be recorded.

Under the single entry system the profit made or loss sustained during a given period would be determined by a comparison of the assets and liabilities of one period with the assets and liabilities of another period. The profit made must represent an increase of assets, a decrease of liabilities or there may be an increase of assets and at the same time a decrease of liabilities, always provided that the original proprietorship is not changed. We would have to take cognizance of any change in the proprietorship.

Under the double entry system the profit or loss is determined by means of the nominal or economic accounts. These accounts are kept for the purpose of showing the economic condition of the firm, to show whether the business is progressing or retrogressing. All the debit balances of such accounts would indicate the outlay or cost, while the credit balances would indicate the income or return. The difference would show the net profit made or net loss sustained.

(3) An executor does not need an elaborate system of accounting. He must, of course, keep a journal and a cash book, wherein to enter in chronological order the transactions and affairs of the estate, and a ledger wherein to record in classified form the transactions recorded in the journal and cash book.

The executor may find it advantageous to columnarize the journal in order to facilitate not only the posting, but also the preparation of the final accounting. The cash book, however, should by all means be columnized. The columnization should be in such a form as to facilitate a speedy and thorough accounting. The form of a cash book on page 207 would be suggestive.

He must, of course, keep accounts for the assets of the estate, as left by the deceased. He must have an account for the personal estate, for the transfer tax, for the legacies and administration, as well as funeral expenses, etc. He must clearly distinguish between corpus and income with regard to receipts and payments.

DEBIT SIDE.

Date	Particulars	Realization of Assets				Income	Sundries	Total
		Inventory	Gain	Loss	Cash			

CREDIT SIDE.

Date	Particulars	Expenses		Debts	Legacies	Sundries	Total
		Principal	Income				

(4) The question does not give the date when the draft was drawn. It is, of course, not essential that it should be given, although a memorandum entry should be made in the journal of the merchants' books to show that a draft has been drawn.

On receipt of the acceptance the entry would be made in the journal as follows:

Notes Receivable..........................	$1,000.00	
To Customer..........................		$1,000.00
For a four months' draft, accepted by the customer in settlement of his account.		

When the note is discounted on March the 13th at the bank the proper entry in the cash book would be:

DR. SIDE.

Date	Particulars	Net Cash	Discount	General Ledger
1909 March 13	Notes Receivable Discounted (Customer's Note).............	$986.50	$13.50	$1,000.00

The notes receivable discount account is debited instead of the notes receivable in order to express the existing contingency on the books.

(5) When in closing the accounts of a business at the end of a fiscal period there are accrued items, such as rent, commission, or salaries, adjustment entries must be made for them. In order to express the exact condition for the period the accrued items must be taken into consideration. They would be charged to the profit and loss account and credited to a reserve properly ear-marked thus: "reserve for accrued rent" or "reserve for commission," etc. On the balance sheet the reserves would appear as liabilities or they would be deducted from the assets.

(6) A contingent liability is a term given to the liabilities of a firm or business when such liabilities are doubtful. A discounted note bearing the endorsement of the firm as long as the note has not been paid by the maker is a contingent liability on the books of the firm endorsing such instrument. Accommodation papers are also examples of contingent liabilities; the firm may at some future time be called upon to make them good. There are two ways of treating such liabilities in a financial statement. One method is to enter it on the books and show it as a liability against which there will always be some asset. In the case of the notes receivable mentioned before the liability of notes receivable discounted would always have the asset notes receivable behind it. Another method of dealing with contingent liabilities in a financial statement is to merely show it as a footnote. The former method is preferable because it expresses the exact condition on the books of the firm.

FIRST FORM.

(7) Name .... Address ....

Date of Transfer of Shares by the above named	Transfer No.	To Whom Shares Are Transferred	Ledger Folio	Certificates Surrendered		Date of Acquisition of Shares	From Whom Shares Were Transferred (If original issue enter as such)	Ledger Folio	Certificates Issued		Balance Remaining to Cr. of above
				Certif. Nos.	No. Shares				Certif. Nos.	No. Shares	

SECOND FORM.

STOCK LEDGER.

X. Y., 500 Broadway, New York City.

Dr. | Cr.

Date	Shares	How Disposed	Certif. Number	Amount	Date	Shares	How Acquired	Certif. Number	Amount
1909					1909				
Feb. 20	25	Transfer to C. D..........	1	$2,500	Jan. 2	25	Original issue............	1	$2,500
March 10	50	Surrender................	10	5,600	Feb. 2	50	Transfer from A. B........	10	5,000
June 30	150	Balance..................		15,000	March 2	100	Transfer from E. F........	30	10,000
					March 12	25	Reissued.................	40	2,500
					March 12	25	Reissued.................	41	2,500
				$22,500					$22,500
					1909				
					July 1	150	Balance..................		15,000

There is practically no relation to speak of that exists between the stock ledger and the general books of account.

If the capital stock account in the financial ledger shows only the amount of stock issued and outstanding, not including under it unissued stock, then the stock ledger would contain the individual accounts of the holders, thus reconciling it. In this instance the capital stock account in the financial ledger would be a controlling account for the individual accounts in the stock ledger.

(8) The two methods referred to in the question are the English and the American. The English practice is to provide for depreciation by a charge against revenue and a credit to the asset itself. To illustrate: Supposing the original cost of the plant and machinery were $5,000 and we have decided to provide for depreciation by charging against revenue seven and one-half per cent. annually on the declining balance.

By the English practice the account would appear as follows:

PLANT AND MACHINERY

Original cost.........	$5,000.00	Depreciation..........	$ 375.00
		Balance............	4,625.00
	$5,000.00		$5,000.00
Balance..............	$4,625.00		

On the balance sheet the plant and machinery account would appear at a valuation of $4,625.00

By the American method the depreciation is credited to an account headed "Reserve for Depreciation on Plant and Machinery." The asset account is carried at cost, while the reserve account shows the depreciation provisions.

On the balance sheet it is shown thus:

Plant and Machinery (cost).......................	$5,000.00	
Less reserve for depreciation (7 ½%)....	375.00	$4,625.00

(9) By contingent assets we mean assets which are doubtful of realization. By contingent liabilities we mean liabilities, the liquidation of which is doubtful. Suspense accounts, money due the firm on a contract not fulfilled as yet, collateral in the possession of the firm to secure the payment of an obligation, are illustrations of contingent assets. Notes receivable discounted by us, accommodation instruments, and liabilities not recognized by the firm but which are pending in a law suit are illustrations of contingent liabilities. While it is not absolutely essential that such contingent assets and liabilities respectively should be represented in the books, although quite advisable, they should nevertheless appear in the balance sheet. The accountant who prepares the balance sheet should, in a footnote call attention to the contingent assets or liabilities respectively.

(10) The proper accounting record in such case would be to debit the surplus account and to credit an account entitled Reserve for Investment. By this method the surplus account is diminished by the amount of the sum appropriated for investment and, therefore, shows so much the less available for dividends. When the asset is acquired the next record should be to debit the asset so acquired and to credit cash.

(11) (a) Nominal accounts are those accounts which record the transactions relating to revenue and expenses and which are closed at the end of a fiscal period by transferring the balances to the trading, income or profit and loss accounts.

(b) Accrued accounts represent assets or liabilities in course of accumulation but not due at the time of closing the accounts.

(c) Deferred accounts represent assets or liabilities which are due at the time of closing the accounts but which will not be settled until some subsequent date.

(d) Net profit is the balance to the credit of an account after all proper charges and credits have been posted; thus net trading profit will be the credit balance in the trading account, but net profits are usually understood to be the profits before distribution.

(e) Capital is the sum of the assets invested in an enterprise.

(12) (a) Partners' salaries should be charged to profit and loss, as the result of trading operations should be arrived at independently, and partners' salaries are a part of the expense of administration.

(b) Profits on sales of real estate do not enter into the trading account or profit and loss aicount. They are an increase in capital investment and go direct to the surplus account.

(c) Partners' drawings do not affect the trading account or profit and loss account. They go direct to partners' accounts, because they are drawn against anticipated profits.

(d) Overvaluation of inventory should be carried to the capital account, otherwise to the surplus account, and not allowed to affect the current profit and loss account.

(e) Estimated losses in realization of trading assets should be charged to profit and loss direct in order not to disturb the results of current transactions, as these estimates may or may not materialize.

(13) The net results of a double entry profit and loss account may be proved by comparing the difference between the assets and liabilities at the beginning and at the end of the fiscal period. The difference will equal the balance in profit and loss account.

(14) (1)

Factor A. B Co. Dr.	$3,000	
To Consignment B. Cr.		$3,000

To charge A. & Co. with shipment.

(2)

Factor A & Co. Dr.	$100	
To Consignment B. Cr.		$100

Freight on shipment.

(3)

Cash. Dr.	$2,500	
To Factor A. & Co. Cr.		$2,500

Payment on account received.

(4)

Cash. Dr.	$1,000	
To Factor A. & Co. Cr.		$1,000

Balance of account sales.

(5)

Factor A. & Co. Dr.	$400	
To Consignment B. Cr.		$400

To charge A. & Co. with amount to make up difference between *pro forma* price and proceeds.

(6)

Consignment B. Dr.	$3,400	
To Sales. Cr.		$3,400

To close former account and credit sales with proceeds of consignment.

(15) (a) Scrip is an evidence of issue of a fractional share of stock.

(b) Stock right is the option of a holder of stock to subscribe to a new issue.

(c) Amortization is the reduction during the term of a security purchased at a premium to its redemption value.

(d) Depreciation is the periodical writing off of the value of an asset by an amount representing its wear and tear and obsolescence.

(e) A consolidated balance sheet is a balance sheet incorporating the assets and liabilities of several companies in one statement.

(16) BALANCE SHEET, DECEMBER 31, 1910.

Current Assets	
Fixed Assets	
Sinking Fund Trustee	
Investments	
Cash on Deposit	
Current Liabilities	
Capital	
Sinking Fund Account	
Dividends Payable	
Surplus (Unappropriated)	

Such loss would have no effect upon sinking fund provided it did not exceed both surplus unappropriated and dividends deferred. If such loss did exceed these two items, then the total amount called for could not be placed in sinking fund.

(17) (a) Long-time bonds for investment should appear in the balance sheet as par, the premium reduced by periodical amortization.

(b) Dividend-paying stocks should be shown at purchase price. The market fluctuations of investments should not affect the balance sheet valuation.

(c) Bonds bought for speculation may be shown at market price, because this will affect the amount available for distribution as dividends or profits, and as this was the purpose of the purchase it is legitimate to revalue at realizable figures.

(d) Land that has appreciated should not in general be revalued except when the balance sheet is prepared with a view of selling the enterprise or for some similar purpose. Going concerns should not be revalued except at intervals.

(18) A tax on corporate income should not be based on cash receipts and disbursements, as the difference between them is not the measure of the income. Without taking into account the unpaid liabilities and the unrealized assets, the income available for dividends cannot be determined, as it may happen that the cash disbursements exceed the income and *vice versa.*

(19) (a) Revenue balance sheet contains, in addition to regular items noted in the balance sheet, a condensed revenue and expenditure account, showing how the profit or loss for the period was ascertained.

(b) Work in process is a term given to partly finished goods that are being manufactured.

(c) By-product is a term given to a manufactured article that is made from the waste of materials used in manufacturing the goods for which the business is operated.

(d) Deficiency account in insolvency is the name used to describe that account which summarizes those items which caused the loss in the business and show how such loss was incurred.

(e) Final accounting is a term used to describe the report rendered by executors, administrators or trustees upon the final winding up and distributing of the estate in their charge or for the period for which they have been appointed.

(20) By summary accounts in the general ledger the total of all aggregate transactions as recorded in the factory and stores ledgers are carried to these controlling accounts in the general ledger. The advantages are that the general ledger shows in summary form the factory and stores accounts, thus relieving the general bookkeeper from detail in connection therewith. The factory and stores accounts as recorded in their respec-

tive general records show the details which allow control of all operations and supplies having to do with cost accounting. These records are generally kept at the factory and stores respectively, the clerks in charge giving such summary entries as will enable the general bookkeeper to incorporate the transactions in total upon his general ledger.

(21) The Public Service Commissions exercise general supervision over the accounts of common carriers in order to secure uniformity in the reports rendered and to make possible intelligent comparison. They may prescribe the accounts to be kept and the items which shall enter these accounts, but not how much of the income shall be spent for a particular purpose. They may prescribe that depreciation accounts shall be kept, but the rate of depreciation must necessarily vary with different enterprises. Additional issues of securities must be authorized by the commissions, the basis for the new issue being in general the additional value put into the property or increased earning power.

(22) The bankruptcy laws state that it is the duty of the bankrupt to file schedules as follows:

First, of all his property and where located.

Second, of all creditors as to their names, amounts due, consideration given and if they hold any security for their claims.

Third, schedule of all property which the bankrupt claims to be exempt under his State laws.

The accounting procedure is as follows:

First, obtain all books and records.

Second, build up the schedules, as heretofore mentioned, from all sources possible.

Third, I think I should prepare a list of prior debts.

Fourth, although the laws do not state that a schedule be drawn showing cause of bankruptcy, still, if I am employed by the bankrupt, I would draw up such statement, as the laws state that the bankrupt must answer all questions relating to the cause of his insolvency.

Auditing.

Questions.

(1) State the objects to be attained by an audit.

(2) State the steps necessary to verify the cash receipts and payments for a period, including the resultant cash balance.

(3) Draft instructions for client to follow in monthly reconciliation of cash, as basis for your audit.

(4) In the case of an unexplained absence of a bookkeeper who has had the entire charge of a set of partnership books, state the steps that should be taken to determine whether or not irregularities had been committed.

(5) The machinery used by a firm has been purchased on the instalment plan, with monthly payments, and under the stipulation that the title shall pass only when the last payment has been made; at the close of the fiscal year there are yet several payments to be made. The firm also pays a royalty on the output of some of the machines secured by this plan. How should the auditor in his annual statements deal with the machinery, the instalments paid and the royalty?

(6) State the method and the objects of an analysis of bills payable account.

(7) State, in the order of their importance, *five* rules for the guidance of a junior in starting on his first audit.

(8) Outline working papers and office records necessary to handle detailed semi-annual audit of a wholesale mercantile house.

(9) State precautions that you would take, in verification requiring several days' work, of the securities of an insurance company, including both stocks and bonds in negotiable and non-negotiable form.

(10) A corporation has branches in twenty cities, each selling at retail its standard product and paying local bills from receipts. State matters on which the traveling auditor of the corporation should report and suggest suitable forms therefor.

(11) A client who has a beneficial interest in the *corpus* of an estate employs an accountant to conduct a complete audit. State the points on which the accountant should particularly report.

(12) In case it is expedient to have a local accountant audit the accounts of a branch office of a wholesale trading firm for which you conduct the

general audit, state matters on which you would require a report. The branch sells goods, collects from customers, pays all local expenses and remits cash in round amounts to home office.

(13) In what way, if at all, would you report the fact that a trusted office manager had overdrawn his salary amount at various times, in no case more than $300, all of which had been returned before the time of the annual audit? State reasons fully.

(14) A balance sheet audit discloses satisfactory conditions with the exception of insufficient allowance for losses in collection of accounts receivable. In case the client should not consent to adjustment, draft form of certificate that would be proper under the circumstances.

(15) State the arrangement of a report in which it is desired to present balance sheet with supporting schedules of accounts receivable, accounts payable, bills receivable and bills payable, and profit and loss account, together with comment on extraordinary features of the business.

(16) An insurance company buys $50,000 7% 10 year bonds at 116 for investment. The bonds will mature at the expiration of 5 years. How should this purchase be entered on the balance sheet? What should be done with the premium?

(17) If in the course of auditing it appeared that the capital expenditures had been charged against profit and loss account, or items of expense charged against improvement account, what should the auditor do in respect to such charges?

(18) What entry should be made in the books of a company of goods sent out on consignment? When goods have been sold and the consignee sends in his account sales, what entry should be made?

(19) In auditing the books of a corporation the president's salary account was found to have been credited with a bonus of $5,000 for "extra services." Under what conditions would you pass this entry?

(20) Would the auditor of a firm or corporation be warranted in revising the form or wording of a balance sheet before attaching his certificate? Why?

(21) Is it necessary to verify the stock ledger of a corporation? Why?

(22) Are there in your opinion any reasons in favor of continuous auditing? If so give such reasons.

(23) Outline the duties and the responsililities of a public accountant as an independent auditor.

(24) State the process by which the balance of the cash account may be reconciled with the bank pass book. What, if any, confirmation of the bank pass book balance should be obtained?

(25) What means should an auditor use to verify accounts representing bonds and stocks owned and bills and notes receivable, and to ascertain whether or not the book values are within the real worth?

(26) What means should an auditor use to verify accounts of sundry debtors and to classify them as good, doubtful or uncollectible? What should he do respecting the doubtful and uncollectible accounts before giving a certifiicate?

(27) Is it necessary that an auditor should inspect the minutes of the stockholders' and the directors' meetings? If so, for what purpose? What should he do in case he is refused access to such records?

(28) In auditing the books and accounts of a company that regularly takes notes from its customers, what, if any, consideration need be given to whether or not any of these notes have been discounted, especially if a certified balance sheet is desired?

(29) Is an ordinary bank check drawn by the the concern whose books you are auditing, to the order of the Receiver of Taxes and properly indorsed by him, a sufficient voucher for the payment of the taxes of this concern? Give reasons.

(30) Two concerns in similar lines contemplate consolidating their business; you are requested to examine the books of account and report on matters germane to the contemplated merger. What data would you probably present in your report?

(31) Wherein may an audit differ from examination?

(32) In making a bank examination would you commence at the start of the business day or at the conclusion of the business day? Give reasons.

(33) On January 10th, you are instructed to furnish a statement of assets and liabilities of a trading concern as to the previous December 31st. No inventory was taken on that date, but you ascertain that the inventory of January 10th, amounts to $7,689.25. The sales billed from December 31st to January 10th amount to $945, of which $300 was shipped but not billed prior to December 31st. The total amount was billed at an average gross profit of twenty-five per cent. above cost. The goods received between December 31st and January 10th cost $678.25. State fully how you would determine the figures for the inventory of December 31st, and show the amount.

(34) If the cash in bank as shown by the cash book or ledger is reconciled with the amount shown by the pass book or certificate obtained from the bank, is it necessary to check the pass book with the deposits as shown by the cash book? Give reasons for your answer, stating the nature of a possible irregularity that might be disclosed by such detail checking.

(35) What measures should be taken to ascertain whether or not any notes receivable have been discounted and cleared from the books, notwithstanding the fact that they are not due and at maturity will be subject to demand on the last indorser in case payment is defaulted by the maker?

(36) What are the duties of an auditor as to examination of inventories of finished product, product in process, and materials and supplies, which have been taken and appraised by representatives of the client, in case he is not permitted to make tests for the purpose of satisfying himself as to the integrity of the quantities shown? How should he cover such a situation in his report?.

Auditing.

Answers.

(1) A systematic inspection of all books of accounts and subsidiary books, the object being to prove the accuracy of all transactions therein, and to run down all fraudulent entries, technical errors and errors of principle. As fraudulent errors are covered by technical errors, a thorough audit is desirable, but where time is limited, by the use of tests, fair accuracy can be attained.

(2) The necessary steps to verify cash receipts and payments for a period including resultant cash balance are:

First. Verify cash receipts by checking with receipt book, if one is kept, otherwise with record of deposits made as shown by deposit slips or with bank pass books.

Second. Verify all payments with proper vouchers. If any are missing checks properly endorsed may be used, but attention should be called to the fact.

Third. Foot cash book and reconcile balance with cash on hand and in bank, by counting cash and by proving bank balance as shown by pass book or bank statement.

(3) All cash received should be deposited and all payments should be made through bank. Petty cash should, when necessary or every month, be reimbursed by check drawn to order of petty cash and charged to petty cash. At the end of the month the bank pass book should be sent to the bank and the balance as shown by the bank at the end of the month entered or a bank statement required. Checks paid by the bank during month should be put in order and the list of outstandings drawn off. The bank balance less outstandings should agree with balance shown by the cash book. Balance shown by petty cash book should agree with cash on hand.

(4) First a careful examination of the method of keeping the books and accounts should be made in order to determine the most likely means of

concealing a defalcation. The cash balance should be verified by count and bank certificate, the cash book footed and proper vouchers seen for expenditures. The daily receipts in the cash book should be compared with daily deposits, the deposit slips being obtained from the bank to ascertain that the receipts of one day have not been used to cover an old defalcation. In addition, if permitted to do so, statements should be sent to customers requesting them to confirm the correctness of the balances. Similar confirmation should be obtained of accounts payable and any outstanding paper or rediscounts. Other lines of investigation will be suggested by the nature of the business, always bearing in mind the relation to the cash, as that is almost invariably the medium of a defalcation.

(5) Show machinery as an asset at its full cost price and show, on the other side, full liability for unpaid installments. This liability would, of course, not be included with other accounts payable but would be shown as a separate item and properly labeled. The asset also should not be shown included with other machinery but should appear as separate item, labelled installment machinery or some other appropriate title. The reason for this is that as a going concern they, to all intents and purposes, own the machinery, even though title has not passed. There is no reason to assume that a going concern will not pay the balance and get title. Practically, therefore, they are interested in the amount of their liability for unpaid installments and the total cost of the machinery. The royalties on the output would be a charge against the income from the output.

(6) The method would be to trace each debit and credit to its original source. That would include the inspection of paid notes charged by the bank and should also include an analysis of interest paid. The object would be to ascertain whether there were any liabilities on account of notes payable that were not shown on the books. When a note was paid, as shown by the books, it would be necessary to assure one's self that it had not been renewed. It should also be ascertained whether the proceeds of notes actually went into the business and were not converted by a partner or officer to his own use.

(7) (1) Absolute secrecy concerning client's affairs.
(2) Accuracy, not speed, to be sought for.
(3) Be tactful.
(4) Take nothing for granted.
(5) When in doubt as to matters of accounting, refer matter to your principal or your office, but not to bookkeeper or client.

(8) It is assumed that a principal and at least three assistants are needed. Each man should be given a time statement of the job, which should show a job number rather than the name of client. It should be ruled so as to provide for different kinds of work, such as footing cash book, checking to ledger, etc., showing amount spent on each kind of work. To the principal should be given working papers, which should at least contain the following:

(a) Analysis of audit, showing at top the several months comprised in audit and at the side the different steps to be taken. As each step is completed the initials of man in charge of that transaction, whether principal or someone designated by him, should put his initials opposite the description and under the proper month.

(b) A sheet on which are given the figures of trial balance at end of previous period, so that principal may parallel figures at end of half year. If books are to be closed, additional column should be provided for "closing and adjusting" entries, and finally two columns left for condensed balance sheet.

(d) Forms for all adjustments made, providing space for a full description. These are the main papers. In addition, analysis paper and a convenient form for notes and memoranda are handy.

(9) If possible, obtain full control of all securities, holding them long enough to list them as to date of maturity, name, amount carried on book, interest, rate, par value, whether negotiable or non-negotiable, etc., whether any are used as collateral or deposited with a bank or other institution. Secure a certificate to that effect. They should be verified with stock quotations, and where this is impossible through other sources to obtain their fair value; also that a proper amount has been set aside to take care of bond discount and bond premium accounts.

(10) Should report on all matters germane to the company's affairs. Amount of cash on hand and in bank; verify book debts receivable and bills receivable as well as the accounts and bills payable; should examine sales journal or records, purchase receipts and disbursements, checks outstanding, amount of overdue accounts receivable and bills receivable; verify amount of inventory by percentage tests or in other ways; verify all entries; verify any commissions, pay-rolls, petty cash items, etc., all of which should be embodied in the report in proper form.

(11) Accountant should obtain copy of will and inventory, should then prepare an accounting from the check book and other records to verify the executor's accounting. He should see that all items contained in the appraiser's inventory had been duly accounted for and that no property had been wrongfully disposed of. Should see that the terms of the will had been complied with; that all increase in values and securities, and income such as rents, interest on mortgages, etc., had been properly collected and accounted for; see that payments for testamentary expenses are properly vouched and not excessive, as well as any expenditures incurred for expenses of property owned; should examine particularly the schedule of debts due by the deceased; verify the amounts, that value was properly received, and whether the bills are properly chargeable to the estate; should examine carefully payments to legatees and next of kin; verify the authority for payments by reference to the will, ascertaining if payments had been made to any one legatee in excess of his share. A

verification of advances account of executor's commissions, etc., should also be made and the cash balance verified.

(12) Verification of cash on hand, checks outstanding, cash book entries, discounts and allowances, sales journal, footings and postings. Verify outstanding accounts receivable and payable; see that all invoices were properly entered; that inventory of goods on hand was properly certified; footings correct, properly entered on books and no extraordinary increase or dead stock was included therein; verify cash disbursements for labor and materials; see that liabilities on notes discounted had been properly entered on statement; verify report rendered to main office and particularly amount of balance due main office. Investigate any extraordinary expenses or advances, etc., and also verify commission accounts.

(13) The auditor should be guided entirely by his judgment and the conditions as he finds them. Where such overdrawing is done with the knowledge of the firm, the auditor, knowing that they have such knowledge, the matter should not be reported at all. Where it is done without the knowledge of the firm it would seem as though the manager was not anxious to have the firm know about it; hence he is returning the money before the audit. In this case the auditor should not take any chances, and had better mention it to the firm and learn whether they are in favor of such a practice or whether they object to it. The matter, if brought to the attention of the firm, should not be embodied in the written report.

(14) In our opinion, the profit and loss account and balance sheet attached substantially disclose the progress of the business to date and its position at this date, with the exception that an insufficient allowance has been made for losses in collection of accounts receivable.

(15) The arrangement of the report will be as follows:

First, presentation page addressed to client, setting forth the object of the engagement and stating the number of pages of comments and the designating letter or number of each statement and schedule.

Second, comments on extraordinary features of the business following the order of the items as they appear in the attached statements and schedules.

Third, Exhibit A, balance sheet, with reference opposite the respective items to attached schedules.

Fourth, Exhibit A, schedule I, accounts receivable; exhibit A, schedule II, bills receivable; exhibit A, schedule III, accounts payable; exhibit A, schedule IV, bills payable.

Fifth, Exhibit B, statement of profit and loss, referring to balance sheet after balance in the profit and loss account.

(16) The question does not state what kind of an insurance company is represented here, life or some other insurance company. The affairs of insurance companies are regulated by the state laws, the requirements of

which, with regard to investments, vary considerably. Accountants as well as insurance men are not uniform with regard to the valuation of bonds in the financial statement. Some advocate cost, others market value. The argument is always advanced that the purchase of securities does not differ from the purchase of any other asset which would be recorded at its cost value. On the other hand it must be borne in mind that, regardless of the amount paid for the purchase of bonds, at maturity they will not realize more than the par value and therefore the premium paid on the acquisition of bonds should be charged to a separate account, not to the bond account. The latter account is to show the amount which the bonds will realize at maturity—par.

The scientific method of treating such purchases on the balance sheet is to show on the asset side the par value of the bonds as one item, and the premium on the bonds as a separate item. At maturity the bonds will realize the par value. The premium paid at the purchase has to be made good from the interest received on the bonds, it has to be amortized. There cannot be any question that if not for the high rate of interest that the bonds bear the company would not pay such a premium, if any at all. That being the case the premium has to be made good out of the interest receipts.

Taking it for granted that the interest is paid semi-annually the insurance company would have ten interest periods. At each period the company would collect $1,750, part of which should represent the amortization of the premium paid. To amortize the total premium ($8,000) each interest period as collected or at the end of the fiscal year has to be burdened with its share ($800). Therefore, instead of crediting the interest account with the full sum $1,750.00 collected, $800.00 would be credited to the premium account, the balance of $950.00 would go to the interest account. Another method may be adopted; to credit the interest for the full sum collected and then subsequently to charge the interest account with $800.00 and to credit the premium account with it. The result, of course, would be the same.

(17) If an auditor finds a wrong classification of expenditures he must adjust the accounts by means of adjustment entries. If a capital expenditure has been charged to profit and loss account the profits or losses for the period under review are understated. A secret reserve has by this method been created. If, on the other hand, an expense item has been charged to an improvement account the error is more grave. While, as far as correct accounting is concerned—expressing exact facts—either error must be adjusted, from a conservative point of view, however, the first error can find some justification, but surely not the second. If the auditor has to certify to the condition of the firm, which we must assume he has, he cannot do so, unless he has made all the adjustments with regard to capital and revenue expenditures.

(18) When goods are sent out on consignment, a "Consignment Outward" account should be debited for the cost of the goods shipped.

This account should also be debited for all additional outlays, viz.: cartage, freight, etc. The corresponding credits should be in the first instance to merchandise sales, in the second case cash, if paid in cash, otherwise to the individual creditor's account.

When the consignee renders his account sales we debit the consignee or his remittance (cash), if he remits, and credit "Consignment Sales." We might credit the "Consignment Outward" account and the result would be the same. It is, however, better practice to so subdivide and classify the accounts that each account would show at any time a definite result.

It will be noticed that the consignee's deductions are not treated at all. To the consignor it does not matter much whether he records that he realized $1,500 for his goods, from which $200 were deducted by the consignee, resulting in a net return of $1,300, or that his net return is $1,300, regardless of what the deductions were.

Another method of recording the account sales is to show the gross sales and charge against it all expenses. The advantage in this case is that the selling expenses of the consigned goods would be recorded, which is not the case in the first method.

(19) "Extra Services" could only then be passed by the auditor, when the by-laws of the company provide for such expenditures. If the by-laws do not provide for it, he must find out whether this extra remuneration has been voted by the stockholders in general meeting. The auditor must also verify whether the bonus was not in excess of the provisions for the remuneration, if such provision exists.

(20) An auditor of a firm or corporation would be warranted in revising the form and wording of a balance sheet before attaching his certificate. It, of course, depends on the actual extent of his certification. Thus where he is reasonably assured that the certified balance sheet is only for the use of the owners of the firm, providing that the wording is not misleading, he is not warranted in revising it. On the other hand, if the certified balance sheet is to be used for outsiders, which is true in the majority of cases, then he must word his balance sheet and arrange it in such form as to most clearly show the true financial condition of the firm.

(21) The auditor has to verify whether the amount charged to the Capital Stock Account, in the stock ledger, does not exceed the authorized issue of stock. He has also to verify that the allotment is valid and that it has been made to bona fide applicants. He must also verify that the stock has been paid for either in cash, property or labor (the latter, labor, in the State of N.Y.). Fraudulent issues of stock may have been made, which would not be disclosed if the auditor were not to verify the stock ledger. The cash received for an issue of stock may not have been recorded, this would be revealed by the verification of the stock ledger.

It is, however, questionable whether a full examination of the stock ledger is part of an ordinary audit.

(22) Mr. Montgomery in "Dicksee's Auditing" (American edition) gives the following reasons in favor of continuous auditing:

(1) The examination occurs sooner, and consequently any errors committed are more quickly detected and rectified.

(2) The periodical visits of the auditor keep the bookkeeper closer up to his work.

(3) A more detailed audit is practicable.

(4) The audit can be completed soon after the closing of the books, without unduly hurrying the examination.

(23) The duties of a public accountant as an independent auditor are to make examinations for particular purposes, such as for bondholders, stockholders, prospective partners; to uncover fraud, and also to make complete audits for the purpose of verifying the entries on the books and for the purpose of certifying to the financial condition of the company as evidenced by its balance sheet. The Public Accountant as an independent auditor should not hesitate in making the truth, the whole truth and nothing but the truth, known, no matter whom it may hurt. As an independent auditor he should be capable of handling all kinds of accounts. He is responsible not only to the concern for whom he is working, but also to the general public for the correctness of his verification. In additon to the duties already mentioned he may also be called in in cases concerning receiverships, trusteeships, consolidation of corporations, etc.

(24) The cash account balance as represented in the cash book is the true balance according to the books. To reconcile the pass book with that balance you must subtract from the bank balance any checks issued and not yet returned to the bank, and also the amount of the cash in the cash drawer. Thus:

Cash Received.		*Cash Paid.*	
John Jones	$1,000.00	John Smith, check No. 1..	$500.00
		Henry Good, check No. 2.	40.00
		Petty cash	20.00
		Balance	440.00
	$1,000.00		$1,000.00

If check No. 2 was not returned, the bank pass book balance would be $500; from this amount subtract $40 check not returned and $20 in cash drawer, which would give $440 balance as per cash book. The balance in the pass book should be confirmed by a statment from the bank certifying to its correctness. It has occurred many times that pass books have been duplicated and that the auditor has been deceived by believing in its correctness.

(25) In verifying stocks and bonds owned, the auditor should insist upon their production and a personal examination of the same and, in

addition, he should consider their present market value, and also, if he has any suspicion, examine them as to their genuineness.

Bills and notes receivable or accounts receivable should be verified by communication with the debtors. Where this method would not be deemed advisable, the next best thing to do is to examine the notes in the possession of the concern, ascertain whether any notes have been discounted at the bank, for which there is a contingent liability; divide the accounts and notes into good and doubtful, and perhaps bad. The doubtful accounts would be those past due or long outstanding. It would be advisable to communicate with these debtors, because it is possible that a mistake has been made or fraud committed. So far as book values and real worth are concerned, we should never certify to the book values of an account which we considered bad and we should not in addition certify to the full book value of a doubtful account without setting up a reserve for bad debts.

(26) In the previous answer we have practically outlined the procedure asked for in this question. In addition to this and in extreme cases it might be necessary to compare the commercial standing of the debtors with a commercial agency guide. A method used by some auditors to ascertain the correctness of accounts receivable is to postpone the audit until the first of the month and then to send statements to the debtors. If the debtors have paid and the money fraudulently used, the debtor will quickly notify the house of such payment. Before any of the above procedure is gone through all the accounts should be checked back from the ledger into the books of original entry. A statement should be made by the auditor containing

(a) Names and amounts of good accounts;
(b) Names and amounts of doubtful accounts;
(c) Names and amounts of bad accounts.

A sufficient reserve should be set up against loss by reason of bad accounts before the auditor can give his certificate.

(27) It is necessary that the auditor should inspect the minutes of the stockholders' and the directors' meetings in order to verify transactions which appear on the books, such as issuance of bonds, increase of stock, salary of directors. The authorization for any entry affecting such items should emanate from the minutes of either stockholders' or directors' meetings. If he is refused access to these records he should plainly state these facts in his report. Many auditors would not undertake an audit where access to such records would be refused.

(28) If a certified balance sheet is requested by a concern that regularly takes notes from its customers in payment of their accounts and which are sometimes discounted at the bank, it will be necessary to set up a contingent liability, called Notes Receivable Discounted, because of the fact

that in the event of any of these notes not being paid by the makers at maturity the bank will come to us for payment, and therein lies the contingent liability. The journal entries would be as follows:

Upon receiving the notes:		
Notes receivable	$100.00	
To X		$100.00
Upon discounting the notes:		
Cash	$99.00	
Discount	1.00	
To notes Receivable Discounted..........		$100.00

Then there appears on the debit side of the balance sheet an asset consisting of Notes Receivable, $100.00, and on the credit side an offsetting contingent liability of Notes Receivable Discounted, $100.00.

(29) An ordinary bank check drawn by a concern, payable to the Receiver of Taxes and properly endorsed by him would not be a sufficient voucher for the payment of the taxes of that concern because that check might be for the payment of taxes on other property and not on the property under consideration. A good voucher in such a case would be a check properly dated and made out, on which it has written, "For payment of taxes on (description of property, at No. 17 X Street, New York City)." A voucher check would be good evidence.

(30) The following matters should be presented in the accountant's report:

(1) Valuation of the assets, such as plant, machinery, merchandise, accounts and notes receivable of each plant.

(2) Liability, fixed and current, of each plant.

(3) Statement showing gains or losses for the past five or six years of each plant.

(4) Average per cent. of gain or loss on investments of each plant.

(5) Statement of the capital accounts of each company.

(31) An audit may differ from an examination inasmuch as an audit is a complete official examination of the books and financial condition of a concern, while an examination may be conducted for some special purpose only, as an examination conducted by minority stockholders; a bondholders' examination for the purpose of ascertaining a man's interest in a concern; an examination conducted for the purpose of uncovering fraud, etc.

(32) In making a bank examination it is better to start at the beginning of the day than at the close of the business day, because,

(1) Everything is intact—that is, all the books are written up; all the money has been counted and turned over to the first teller.

(2) All the securities and moneys are in the vault untouched.

(3) Any changes in the first teller's cash can easily be detected by a comparison with his report of the night previous.

(4) The auditor can secure himself against any money, coming in by the morning mail which should be in the safe, being placed in the safe by keeping the safe sealed and taking money and securities from it only after he has made his notation of the withdrawal of the same. The employees of a bank might very easily fix up their accounts and moneys if the audit began at the close of the business day.

(33) In the first place, we deduct from the inventory of January 10th the purchases made between December 31st and January 10th, which leaves a balance of $7,011.00. To this sum we add the cost of the goods sold between the period named, which amounts to $756.00, and that would give us the amount of goods on hand on December 31st, which is $7,767.00. The proof of this is shown thus:

Inventory December 31st	$7,767.00
Purchases	678.25
	8,445.25
Deduct sales at cost	756.00
Present inventory	$7,689.25

(34) In order to trace the receipts of cash as shown by the cash book, when such receipts have been deposited in the bank it is necessary to check the pass book with the cash book. The irregularities that might be disclosed by such checking would be where checks were received and not deposited at all. If cash receipts were not deposited on the same day but covered up by subsequent checks that came into the business, such operations would be disclosed by this detailed checking.

(35) The notes receivable account would have to be analyzed. If the credit side of this account showed a credit although the note has not matured as yet, the record in the books of original entry would show whether the note in question was prepaid or discounted. If it was discounted, there is a contingent liability, and in the preparation of financial statement such contingent liability should be mentioned.

(36) In such case it is advisable for the auditor to have a statement signed by the parties who have authority with regard to the valuation of the inventory. It is always safer for the auditor to state this fact in his report.

Commercial Law.

Questions and Answers.

1. What is a corporation? Describe the procedure necessary for the formation of a business corporation, and show what is required as to (a) number of incorporators, (b) number of directors, (c) capital to be paid in.

Answer. Lord Coke's definition of a corporation.—"A corporation aggregate of many is invisible, immortal, and rests only in intendment and consideration of the law. They cannot commit treason, nor be outlawed, nor excommunicated, for they have no souls, neither can they appear in person, but by attorney. A corporation aggregate of many can't do fealty, for an invisible body can neither be in person nor swear; it is not subject to imbecilities or death of the natural body and divers other cases." *In re* Sutton's Hospital (10 Coke's Rep. 1, 32), decided in 1683.

Seymour Thompson's definition of a corporation.—"A private corporation is a voluntary union of persons, joined together by written articles of association or incorporation under legislative authority, or by special statute on proper application to the legislature, to accomplish some pecuniary or ideal purpose authorized by the governing body of a state. Its leading features are that it has a continuous succession during the period prescribed for its existence, an individual name by which it may enter into contracts and sue and be sued, acting as a unit in respect to all matters within the scope of the purposes for which it is created, and a distinct existence or legal entity separate and distinct from the natural persons composing it. The essential idea of a corporation is that it has 'The capacity to exist and act within the powers granted, as a legal entity, apart from the individual or individuals who constitute its members.'" (Andrews Bros. Co. *vs.* Youngstown Coke Co., 30 C. C. A. 293, 86 Fed. 585; 1 Ky. Corporations, 70.) Thompson on Corporations, Second Edition, Sec. 2.

Chief Justice Marshall's definition of a corporation.—"A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence. These are such as are supposed best calculated to effect the object for which it was created. Among the most important are immortality, and, if the expression may be allowed, individuality; properties by which a perpetual succession of many persons are considered as the same, and may act as a single individual. They enable a corporation to manage its own affairs, and to hold property without the perplexing intricacies, the hazardous and endless necessity, of perpetual conveyances for the purpose of transmitting it from hand to hand. It is chiefly for the purpose of clothing bodies of men in succession with these qualities and capacities that corporations were invented, and are in use. By these means, a perpetual succession of individuals are capable of act-

ing for the promotion of the particular object, like one immortal thing." Per Chief Justice Marshall, in Dartmouth College Case, Dartmouth College *vs.* Woodward, 4 Wheat. 518.

A business corporation is formed in New York under the Business Corporations Law (Ch. 4 of the Consolidated Laws of 1909) as follows:

Prepare three (3) copies of a certificate of incorporation. These certificates should be signed and acknowledged by the incorporators. Send two(2) of them to the Secretary of State, with directions that one (1) be filed and the other be returned as a certified copy of the original. The fees of the Secretary of State are Ten ($10.00) Dollars for filing the certificate, and fifteen (.15) cents per folio for recording; for certifying the copy, One ($1.00) Dollar. At the same time the organization tax should be sent to the State Treasurer. The tax amounts to fifty (.50) cents per thousand dollars of the total authorized capital stock stated in the certificate; minimum tax, Five ($5.00) Dollars. The State Treasurer will send one receipt to the Secretary of State, who will attach it to the certificate of incorporation, together with a statement of the amount and date of payment of the tax, and will then file and record the certificate of incorporation and will notify the person from whom he received it that it has been filed. The State Treasurer will also send a duplicate receipt to the remitter, which duplicate receipt should be attached to the third copy of the certificate, which is termed a duplicate original—the other original being filed by the Secretary of State. The duplicate original should then be filed in the office of the County Clerk in which the principal office of the company is to be located. The County Clerk's fees are: Filing fee, six (.06) cents per folio; recording fee, ten (.10) cents per folio.

The certificate of incorporation should contain the following clauses:

(1) The name of the proposed corporation, which must be in the English language, and must not conflict with the name of any existing domestic corporation or of any foreign corporation authorized to do business in the state. The name should not contain any of the following words: "Trust," "bank," "banking," "insurance," "assurance," "indemnity," "guaranty," "guarantee," "title," "savings," "investment," "loan," "benefit," "college," or "university."

(2) The purpose or purposes for which it is to be formed. A corporation may be formed in New York State for any lawful purposes other than those provided for by the moneyed corporations law, the banking, the insurance the railroad, the transportation corporations law and the education law. Corporations may not be formed in New York to practice law, medicine or dentistry. (Business Corporations Law, Sections 2 and 2a.)

(3) The amount of the capital stock, and, if any portion be preferred stock, the preferences thereof. Preferred stock may be deprived of voting power. (People *vs.* Koenig, 133 App. Div. 756.)

(4) The number of shares of which the capital stock shall consist, each of which shall not be less than Five ($5.00) Dollars, nor more than

One Hundred ($100.00) Dollars, and the amount of capital not less than Five Hundred ($500.00) Dollars, with which said corporation will begin business.

(5) The city, village or town in which its principal business office is to be located, and, if in New York City, the borough therein in which it is to be located.

(6) Its duration, which may be perpetual.

(7) The number of its directors, no less than three (3).

(8) The names and post-office addresses of the directors for the first year. At least one of the directors must be a resident of the State of New York. The directors need not be incorporators or subscribers for stock. (163 N. Y. 423.)

(9) The names and post-office addresses of the subscribers to the certificate, and a statement of the number of shares of stock each agrees to take in the corporation. The incorporators should consist of three or more natural persons of full age, at least two-thirds (⅔) of whom must be citizens of the United States, and at least one a resident of the State of New York. Each incorporator must subscribe for at least one (1) share of stock.

2. (8) May directors of a corporation convey the property of the corporation to themselves? Give reasons.

Answer. Three views obtain in the United States as to the validity of contracts between directors and the corporation.

I. Such contracts are voidable but not void, and are therefore binding on the directors at the option of the corporation. Bar *vs.* Ry., 125 N. Y. 263 (1891); Veeder *vs.* Horstmann, 85 App. Div. 154 (1903). No question, therefore, as to the fairness or unfairness of the contract is involved. Munson *vs.* Ry., 103 N. Y. 58 (1886); Carpenter *vs.* Taylor, 164 N. Y. 171 (1900).

Same views obtain in:

Indiana—Port *vs.* Russell, 36 Ind. 60.

Wisconsin—Haywood *vs.* Lincoln Lumber Co., 64 Wis. 639, 26 N. W. 124.

California—Wilber *vs.* Lynde, 49 Ga. 290, 19 Am. Rep. 645.

Maryland—Hoffman, etc., Co. *vs.* Cumberland, etc., Co., 16 Md. 456, 77 Am. Rep. 311.

II. The second view is not so rigid as the first. The courts that follow this view hold that contracts between directors and their corporations are voidable, but are presumptively valid. However, they may be challenged and avoided for any lack of good faith. This view prevails in most jurisdictions:

New Jersey—Stewart *vs.* Lehigh Valley R. Co., 38 N. J. L. 505.

United States—Leavenworth County *vs.* Chicago, etc., R., 134 U. S. 688, 10 S. Ct. Rep. 708, 33 L. Ed. 1064.

III. The third view holds that contracts will depend for their validity on the circumstances surrounding each case, though the courts will scrutinize such contracts more carefully than ordinary contracts:

Kansas—Thomas *vs.* Sweet, 37 Kan. 183, 14 Pac. 545.
Pennsylvania—Hammond's Appeal, 123 Pa. St. 503, 16 Atl. 419.
South Carolina—Ga. Cent. R. *vs.* Claghorn, 1 Speers Eq. 545.
Vermont—Rogers *vs.* Danby, etc., Soc., 19 Vt. 187.

Sometimes contracts between the corporation and its directors are sanctioned by by-laws. The by-laws of the U. S. Steel Corporation provide: "Inasmuch as the directors of this Company are men of large and diversified business interests, are likely to be connected with other corporations with which from time to time this Company must have business dealings, no contract or other transaction between this Company and any other corporation shall be effected by the fact that directors of this Company are interested in or are directors or officers of such other corporations, if, at the meeting of the board, or of the committee of this Company, making, authorizing or confirming such contract or transaction, there shall be present a quorum of directors not so interested; and any director individually may be a party to, or may be interested in, any contract or transaction of this Company, provided that such contract or transaction shall be approved or be ratified by the affirmative vote of at least ten directors not so interested."

A somewhat late case in New York, Polhemus *vs.* Polhemus, 114 App. Div. 781, 100 N. Y. S. 263 (1906), holds that there is no presumption of fraud as to the actions of directors in selling corporate property to another director. Under this decision the contract could be avoided, but the stockholders would have to bear the burden of proving fraud.

3. For what kind of property may a corporation issue its capital stock in payment? Explain fully.

Answer. Section 55 of the Stock Corporation Law in the State of New York provides:

"No corporation shall issue either stock or bonds except for money, labor done or property actually received for the use and lawful purposes of such corporation."

It has been held in the case of Rafferty *vs.* Gas Company, 37 App. Div. 618 (1899), that the phrase "lawful purposes" means those purposes which are not foreign to the purposes of the corporation. The phrase, it is said, is to be given a liberal construction.

4. When the capital of a corporation is increased, what persons have a prior right to subscribe for the new stock, and in what proportions? May such right be made negotiable, and if so, how?

Answer. The old stockholders have a right to purchase the new stock pro rata before it may be offered to outside investors. However, a price may be fixed, not less than par, and if the stockholders are given an opportunity to take stock at that price in proportion to their holdings, and

the offer is not accepted, the stock may be sold at the advanced price and the stockholders may not insist upon taking the stock at par.

"When the stock is issued in payment for property purchased by the corporation, the stockholders' right is merged in the purchase, and they have an advantage in the increase of the property of the corporation in proportion to the increase in stock."

"And if so situated that he could not take it himself, he was entitled to sell the right to someone who could, as is frequently done." These quotations are from Judge Vann's opinion in Stokes *vs.* Continental Trust Co., 186 N. Y. 285 (1906).

The privilege of purchasing new stock belongs to the remainder-man and not to the life tenant. Richwood *vs.* Richman, 127 App. Div. 117, 108 N. Y. S. 298.

The right is made negotiable by the corporation, which sends a negotiable notice to each shareholder of the number of shares to which he is entitled.

The following notice copied from the Wall Street Journal, issue of November 5, 1909, fully explains the modern method of making subscription rights negotiable:

THE PENNSYLVANIA RAILROAD COMPANY.

NOTICE TO STOCKHOLDERS.

PHILADELPHIA, PA., November 1st, 1909.

At a meeting of the Board of Directors held this date the following resolution was adopted:

"RESOLVED That, pursuant to the consent and authority given and conferred by appropriate action duly taken by this Company's stockholders for increasing its capital stock, and for the purpose of providing the funds necessary to meet maturing obligations of the Company, and for other corporate purposes, an increase of this Company's capital stock equal to twenty-five centum of the aggregate amount thereof which shall be issued and outstanding at the close of business on the fifteenth day of November, 1909, is hereby authorized and directed, and the same shall be issued and disposed of in manner following:

The privilege of subscribing for said stock at par $50 per share, on December 8th, and to and inclusive of December 18th, 1909, on which latter date the privilege will cease, is hereby given to stockholders as they shall stand registered on the books of the Company at the close of business on November 15th, to the extent of twenty-five per centum of their respective holdings.

The terms of subscription will be as follows:

Payments may be made in three instalments, or they may be made in full, viz.:

The first instalment, 30 per cent., or $15.00 per share, at the time of making the subscription, between December 8th and December 18th, 1909, inclusive.

The second instalment, 30 per cent., or $15.00 per share, between February 23rd and March 1st, 1910, inclusive.

And the third instalment, 40 per cent., or $20.00 per share, between May 26th and June 1st, 1910, inclusive.

Payments in full at the time of making the subscription, between December 8th and December 18th, 1909, inclusive.

Warrants will be issued by the Treasurer to each stockholder, specifying the amount of stock to which he is entitled to subscribe under this privilege, and such privilege may be sold by any stockholder, the warrants to have thereon a form of assignment therefore. The warrants, accompanied by the payment for the first instalment, shall be returned by the stockholders to the Treasurer between December 8th and December 18th, 1909, inclusive, and if not so returned, and the first instalment so paid, the warrants shall be void and of no value.

The Treasurer will issue, on surrender of the warrants and payment of the first instalment, receipts which will be assignable and which are to be returned to the Treasurer at the time of the payment of the second instalment, whereupon assignable receipts covering the first and second instalment payments will be issued, which are to be surrendered to the Treasurer on payment of the third instalment.

Upon payment of the last instalment there will be issued a check for interest at the rate of six per centum per annum on the first instalment from December 18th, 1909, and on the second instalment from March 1st, 1910, all up to June 1st, 1910, which will amount to $0.63 per share.

To subscribers making payment in full between December 8th and December 18th, 1909, inclusive, and to those making payment of the last instalment between May 26th and June 1st, 1910, inclusive, full paid negotiable stock receipts will be issued for whole shares, exchangeable, ten days after payment, for stock certificates carrying all dividends thereafter declared.

For fractional shares, full paid stock receipts will be issued upon payments in full or upon payment of the last instalment. They will not carry any dividend or interest, but will be convertible into stock when the fractions presented make whole shares, provided such conversion is made on or before October 31st, 1910. After April 30th 1910, such fractional stock receipts issued upon payments in full, or after October 31st, 1910, fractional receipts issued upon payment of the last instalment will be redeemed in cash at the rate of $50 per share, without interest.

Fractional receipts will pass by delivery.

The right to receive stock shall accrue to any stockholder under this privilege unless the terms of subscription are fully complied with and payments made at the dates hereinbefore stated, and no subscription or assignment of the privilege will be recognized unless made on the forms furnished by the Company."

Warrants will be mailed about November 23rd, to stockholders of record November 15th, 1909, who who have filed permanent dividend orders in this office, to the addresses indicated on such orders, and where dividends are collected by bankers, brokers or others on powers of attorney or other authority, the warrants will be sent to such authorized parties for delivery to the stockholders, unless other instructions are received relative thereto prior to November 23rd, 1909.

ALL COMMUNICATIONS BY MAIL SHOULD BE ADDRESSED TO THE TREASURER AT PHILADELPHIA.

James F. Fahnestock,
Treasurer

5. What are the advantages of incorporating a business? For what puropses may corporations be formed in Illinois? Name exceptions, if any.

Answer. The main advantages of the corporate form of doing business has been summarized by Professor W. H. Lough in his "Corporation Finance" as follows:

"(1) Flexibility.—The owners of a corporation may be few or numerous. This makes the corporate form especially well adapted to collecting large amounts of capital by means of small contributions from a great many people.

"(2) PERMANENCE.—The life of a corporation is not dependent on the life or on the caprice of any individual.

"(3) CENTRALIZATION OF CONTROL.—Under the corporate form the officers of the corporation within carefully defined limits exercise complete control.

"(4) TRANSFERABILITY OF OWNERSHIP.—Corporate shares may be readily sold either in a block or piecemeal and have a wide market.

"(5) LIMITED LIABILITY.—The corporation alone, with certain minor exceptions, is liable for its own debts and the shareholders cannot lose more than their original investment."

A so-called incorporating company in New York City prepared the following statement to show the advantages of a corporation over a partnership:

In a Partnership.—I. You are liable to the full extent of your own property for firm debts. If a judgment against the partnership cannot be satisfied out of firm assets, each partner will be individually liable for the full amount of the deficit.

II. Your partner has as much authority in the conduct of the firm business as yourself. Your credit is at the mercy of your partner. By hiring an incompetent employe, by engaging in speculation, by an indiscreet contract or by dishonesty he can cause you the loss of everything you have in the world.

III. Your partner's death, insanity or bankruptcy immediately dissolves the partnership. A very valuable good-will, perhaps, will have to be sold at a sacrifice to clear up the partner's estate. Thus, irreparable damage will be done.

IV. Your partner may desire to lend money to the firm. He will have to wait for payment of his loan till all the firm creditors are paid.

V. You may desire to add a new partner to the business, either because he is an extraordinarily competent man, or because he will invest capital. The dissent of a single member of your firm can keep out such a desirable man.

VI. You may desire to wind up your interest in the concern, but if your partner refuses to permit you to withdraw, you will have to resort to long and expensive litigation.

VII. You may desire to obtain new capital for the business, but you will find that because you are a partnership it will be difficult to negotiate a loan.

In a Corporation.—I. As a stockholder you are subject to absolutely no liability, outside of the amount invested in the stock of the corporation. A creditor of a corporation can satisfy his claim out of the assets of the corporation only.

II. A stockholder, as such, has no power to incur any liability for the corporation or for any other stockholder. He is not an agent for either unless he is specially appointed. In no case can you, as a stockholder, be made liable for more than you have invested.

III. Your fellow stockholder may die, become insane, or go through bankruptcy, but the corporation will not be affected; it will continue its business as though nothing had happened. The only change that will be made will be the substitution of a new stockholder for the old one. The continuance of a corporation may be perpetual if it is so desired.

IV. You, as a stockholder, may lend money to the corporation; you will be entitled to payment as soon and in the same proportion as outside creditors.

V. You can secure new capital very easily and without disturbing the business by merely issuing stocks or bonds.

VI. You have two means of raising money: first, on your individual holding in the company; second, on the credit of the corporation itself. The rights of all parties are clearly defined in a corporation, and the business can be easily and safely managed.

VII. You may desire to withdraw from a corporation; you can do so by merely selling your stock. One or all the stockholders may thus sever their connection with the corporation without working its dissolution. (See also answer to Question 11.)

Corporations may be formed under the general corporation law of Illinois for any lawful purpose except banking, insurance, real estate brokerage, operation of railroads and the business of loaning money, horse or dummy railroads. Corporations formed for the purpose of constructing railroad bridges and those organized for the purchase and sale of real estate for burial purposes only are permitted. A corporation may not be organized to acquire and hold land upon which to erect a building to lease and to collect rents from it. (Imperial Building Company *vs.* Chicago Open Board of Trade, 87 N. E. Rep. 167.)

6. Must each share be paid for in full by each subscriber to an Illinois corporation before a certificate of stock may be issued to him? May capital stock be paid for in property?

Answer. Nothing is said in the statute prohibiting the issuing of a certificate of stock to a subscriber who has not paid for it in full, and it would seem, therefore, that under such conditions a certificate of stock may be issued. (See Bates *vs.* Tel. Co., 134 Ill. 548.)

The Illinois statute contains no provision as to the method of paying for capital stock, but the courts have decided that capital stock may be issued for labor, property or other valuable consideration. (Farwell *vs.* Great Western Tel. Co., 161 Ill. 532). For the answer to this question under the New York law, see question No. 3 above.

7. A stock certificate is issued to the original subscriber bearing the printed words "full-paid and non-assessable," when in fact it was only partly paid for; subsequently it is sold and assigned to a purchaser without notice of the fact that it is not paid in full. What remedy has a creditor of the corporation against the original subscriber and against the transferee?

Answer. Where shares are issued as "full paid" innocent purchasers are protected against the corporation and against creditors. (10 Cyc. 483, and cases there cited.) In New York, Section 56 of the Stock Corporation Law provides that the stockholder is liable up to the amount of the unpaid part of his capital stock for debts incurred while he was a stockholder. Action must be brought to enforce this liability within two years of his ceasing to be a stockholder.

8. Has the holder of a single share of stock the right to inspection of the books; if so, where and under what circumstances?

Answer. In Illinois every stockholder has a right at all reasonable times or by his attorney to examine the records and books of account. General Corporation Law, section 13; Rolling Stock Company *vs.* People, 147 Ill. 234.

New York corporations must keep books of account and a stock ledger. Any stockholder may inspect the stock ledger during at least three business hours daily and may make extracts therefrom. The stock ledger must contain the names of all stockholders alphabetically arranged, residences, number of shares held when became owners, and amount paid thereon.

Stockholders have no right in New York to inspect books of account, but instead stockholders holding 5% (if the capital stock is $100,000 or less) or 3% (if the capital stock exceeds $100,000) of the capital stock may demand in writing from the treasurer or chief fiscal officer a detailed statement embracing all assets and liabilities, which statement must be filed within thirty days in the corporation's office, and must be open for inspection to all stockholders for a period of twelve months. Only one report a year may be demanded. Penalty for failure to comply with the law is $50, and $10 for each twenty-four hours' delay.

9. (a) How are the directors and the president of a Pennsylvania corporation, which was formed under the general corporation act of 1874, chosen? (b) What is meant by stock proxy? (c) What is meant by the authorized capital? (d) Need anything be paid into the treasury of the company before it starts? (e) If the company fails, to what extent are stockholders liable for its unpaid debts?

Answer. (a) In Pennsylvania, directors for the first year are named in the certificate, and thereafter are chosen at the annual meeting, Cumulative voting must prevail. (Constitution, Article XVI, Section 4.)

The rule in New York is the same as that in Pennsylvania, except that cumulative voting does not obtain unless provided for by the charter.

(b) Proxy voting is voting by power of attorney. In Pennsylvania a proxy is not good after two months after date. No blank proxy may be given nor may the proxy be given power of substitution.

In New York a proxy is good for any definite period mentioned therein, otherwise for eleven months only.

(c) By authorized capital is meant the amount at par which the stockholders must pay for all the capital stock or shares of a company. It is

fixed by the organizers at the time of organization and can be changed by formal amendment only.

(d) In Pennsylvania 10% of the capital stock must be subscribed for and paid into the treasury before the application for charter is filed, and one-quarter of the capital stock must be paid within two years.

New York corporations are not permitted to incur debts until at least $500 has been paid in. At least one-half of the capital stock must be paid in within one year.

(e) In Pennsylvania stockholders are liable for amounts unpaid on capital stock and also for work or labor done not exceeding an amount equal to the amount of stock held by the stockholder.

The stockholders of New York corporations are liable for amounts unpaid on their capital stock, and are jointly and severally liable for all debts due and owing to laborers, servants or employees, other than contractors, for services performed by them for such corporation. This liability rests on the pledgor of stock and on the estate of a decedent as distinguished from the pledgee and the personal representative.

10. (a) How is a corporation created? (b) Give some of the powers, rights and duties. (c) Give a general rule as to rights of members.

Answer. (a) A Pennsylvania corporation is formed by performing the following steps:

1. Preparing, executing and acknowledging a certificate of incorporation.
2. Publishing notice of intended application for a charter once a week for three full weeks in at least two newspapers.
3. Filing certificate in the office of the Secretary of the Commonwealth.
4. Filing proof of the publication of notice of intention to apply for charter.
5. Recording charter in the office of the Recorder of Deeds.

(See answer to question 1 as to procedure in forming New York corporations.)

(b) General powers of corporations:

(1) To sue and be sued.
(2) To use a seal.
(3) To buy, sell and hold property.
(4) To appoint directors, officers and agents.
(5) To make by-laws.
(6) To dissolve itself.
(7) To do all things necessary to carry out the purposes set forth in the certificate of incorporation.

(c) Individual rights of members:

(1) To a certificate of shares.
(2) To transfer shares.
(3) To vote.
(4) To inspect corporate records.

(5) To dividends.

(6) To preference upon increase of capital stock.

(7) To interfere with corporate business where there is a breach of trust on the part of the officers or majority, where there is a commission of *ultra vires* acts on the part of the corporation, or where the directors or majority refuse to act for the benefit of the corporation.

11. (a) What is a corporation? (b) How does it differ from a partnership? (c) How does it differ from a joint stock company?

Answer. See table (pages 240 and 241).

12. (a) What is the meaning of the word "stock" in reference to a corporation? (b) What does it represent? (c) How is it transferred? (d) What right have stockholders in and to the corporate property?

Answer. (a) By stock is meant the interest represented by certificates of stock which the stockholders have in the corporation.

(b) Stock is divided into equal shares, and is represented corporeally by certificates of stock. It represents the interest which the stockholders have in the corporate property and in the management thereof.

(c) Stock is transferred by assignments in blank or by specific assignments endorsed on the certificates of stock. In most states the transfer is not binding on the corporation until it has been registered on the books of the company.

(d) Stockholders have no direct interest in corporate property except upon dissolution.

13. Distinguish clearly between public corporations and private corporations.

Answer. Public corporations are those formed to accomplish some public purpose. For example, a municipality, a township or a school district is a public corporation.

A quasi-public corporation is one organized for private profit and by private individuals with the object and purposes of promoting some public enterprise. They are sometimes called public service corporations. Examples: Railroad, canal, gas companies, etc.

Private corporations are those created by private individuals to promote and prosecute private enterprises.

14. (a) How is a pledge of stock usually made? (b) Must the pledgee return to the pledgor the identical certificate pledged? (c) Has the pledgee the right to sell or to repledge the stock?

Answer. (a) A pledge of stock is usually made by simply depositing a certificate with the pledgee.

(b and c) "While as a general rule the pledgor, upon discharge of his obligation, is entitled to the return of the specific property pledged, corporate stock stands on a different footing; and in the absence of a special agreement the pledgee is not liable for their conversion by reason of his sale or other disposition of the identical certificates delivered to him,

CHART SHOWING PRINCIPAL FORMS OF BUSINESS ASSOCIATIONS WITH A COMPARATIVE SUMMARY OF LEADING FEATURES.

	1 General Partnership	2 Limited Partnership	3 Joint Adventure	4 Joint Stock Company	5 Corporation
I How Created	Contract relation.	Statutory formation.	Contract.	Contract relation. In some states the formation and regulation is governed in some respects by statute	Statutory formation; general or special statutes.
	1. By contract, by lapse of agreed period.	1. Same as partnership.	1. Accomplishment of purpose of adventure or expiration of contract according to its terms.	1. Lapse of agreed period under Articles of Association.	1. Lapse of statutory period or period set forth in certificate.
	2. Withdrawal of partner.	2. Special partner cannot withdraw.	2. Adventurer cannot withdraw without consent of others unless so provided in the contract.	2. Duration unaffected by transfer of shares.	2. Unaffected by transfer of shares.
	3. Bankruptcy of partner.	3. Same as partnership.	3. Depends on nature of the adventure and the duties of the bankrupt members.	3. Unaffected by bankruptcy of member.	3. Unaffected by transfer of shares.
	4. Bankruptcy of firm.	4. " " "	4. Same as partnership (must for this purpose be looked upon as a partnership).	4. Ended by Insolvency Proceedings. May be adjudged bankrupt, but may be discharged.	4. Same as joint stock company.
II How ended.	5. Death of partner.	5. " " "	5. Not affected by death of member. Personal representative will take his place.	5. No delectus personae (i. e. choice of person); death of member does not dissolve the company.	5. Same as joint stock company.
	6. War between nations represented by the partners.	6. " " "	6. Same as partnership if intercourse between parties is essential to the enterprise.	6. Unaffected by war.	6. Unaffected by war.

	7. Court decree in case of: a. Misconduct. b. Insanity. c. Loss.	7. " " " 8. By alteration in name of partnership or in essential part of the certificate.	7. Same as partnership.	7. Court may decree dissolution for any good cause shown, e. g., no dividends in 23 years and no prospect of any; fraud or conversion of assets. 8. Ownership of all shares by same person.	7. Court may decree dissolution for: a. Non-user of franchise. b. Breach of law. c. Fraudulent and illegal acts
III Relation ~~of~~ Members to the Whole.	1. Each partner is general agent within the general scope of the firm's business. 2. Partners cannot sue partnership; must go into equity for an accounting. 3. Sue and sued in the name of individual members	1. General partners but not special partners are general agents. Special partners ordinarily have no interest in the management. 2. Special partner can sue firm on debt. 3. Sue and sued in the name of the general partners.	1. Title to property usually in one member who is bound to act according to the contract. 2. One member may sue the other members at law for his share of the profits. This is the chief difference between joint adventures and partnerships. 3. Same as partnership. But where one member has conducted the business in his own name he may sue and be sued in his own name.	1. Members not agents; governed by directors. 2. Same as partnership. 3. Sued generally under modern legislation as though company were a single artificial person. In absence of statute same as partnership. In New York if it contains more than six persons it can sue and be sued in the name of the president or treasurer.	1. Stockholders not agents. 2. Corporation and stockholders are distinct persons and may sue each other. 3. Sue and sued in its own name.
IV Liability of Members to Creditors.	1. Full liability on each member for all firm debts.	1. Full liability of general partners. 2. Special partners liable only to contribute amount named in certificate.	1. Same as partnership.	1. Same as partnership.	1. Stockholders liable only to pay amount of their subscription. When that is paid liability ends, except in some jurisdictions for wages etc.

so long as he retains at all times an equal number of shares of the same class and value to be delivered to the pledgor upon discharge of his obligation." (10 Cyc. 855-6, citing Horton *vs.* Morgan, 19 N. Y. 170.)

15. What is meant by *ultra vires* as to an act of a corporation? Explain and give an example of such an act.

Answer. "The contracts of corporations are said to be *ultra vires* when they involve some adventure or undertaking not within the scope of their charter, which is their rule of corporate action." (Leslie *vs.* Lorillard, 110 N. Y. 519.) If, for example, an Illinois corporation contracted to acquire real estate on which to build an office building, not for its own immediate needs, the contract would be *ultra vires.* (See answer to question 5.)

As to the rights of parties under *ultra vires* contracts, two rules prevail in this country. In the United States courts and in the courts of Alabama, Massachusetts, Tennessee and some other states an *ultra vires* contract cannot be enforced by either side, but if one side has performed its contract it may recover for the benefits the other side has received. In Indiana, Illinois, New York, Pennsylvania and many other states the obligation of an *ultra vires* contract may not be resisted by a party who has received benefits thereunder. Courts, in general, will not rip open fully executed *ultra vires* contracts, nor will they lend their aid to the enforcement of *ultra vires* contracts wholly unexecuted.

16. Give in a general manner requirements of the law governing the organization of corporations in the State of Rhode Island, and state what class of corporations can be organized under the general laws.

Answer. The general laws require that in order to form a corporation any number of persons, not less than three, all of lawful age, may file articles of association in the office of the Secretary of State, together with a receipt from the general Treasurer showing that the organization tax has been paid. The Secretary of State then issues a certificate of incorporation.

Within thirty days after organization, a certificate verified by the Treasurer or other authorized officer must be filed with the Secretary of State. This certificate must set forth the name of the corporation; the date of organization; the amount of capital stock paid in on organization; the town in which it is located; and the name and address of its treasurer, and if he be a non-resident, there should be filed a copy of a power of attorney duly authenticated appointing some competent person residing in the State as attorney to receive service of process. Manufacturing corporations must record with the town clerk in which the main factory is established a certificate of payment of capital stock within ten days after the last payment.

Corporations may be formed under the general laws for any purpose, except insurance, banking or for the purpose of trading in bonds, notes or other evidences. By Article IX of the Amendments of the Constitution

of the State, no corporation shall be created under the general laws with power to excercise the right of eminent domain or to acquire franchises in the streets and highways of towns and cities.

17. A corporation called The Western Trading Company was incorporated under the laws of the State of Illinois. A certificate of complete organization was issued by the Secretary of State and everything necessary to constitute this a "*de jure*" corporation was done except to record the certificates in the office of the Recorder of Deeds of Cook County, the principal office of the company being in Chicago. After the company was thus organized, its president ordered some bonds engraved by the American Bank Note Company, and the bonds not being paid for on delivery, the work thus ordered having been charged to the Western Trading Company on the books of the plaintiff company and bills rendered accordingly, the latter company sued the president of the Western Trading Company for the contract price of the work. The court gave judgment for the plaintiff on the ground that the Western Trading Company, not having filed in the office of the Recorder copy of its articles of incorporation, as required by law, was incapable of contracting and could not be held liable on this contract. Give your opinion in this case.

Answer. In Illinois the General Corporation Law, Section 18, provides: "If any person or persons, being or pretending to be an officer or agent or Board of Directors of any stock corporation, or pretended stock corporation, shall assume to exercise corporate powers or use the name of any such corporation, or pretended corporation, without complying with the provisions of this act, before all stock named in the articles of incorporation shall be subscribed in good faith, then they shall be jointly and severally liable for all debts and liabilities made by them and contracted in the name of such corporation, or pretended corporation." On a statement of facts similar to those in the question, it was held, in the case of Loverin *vs.* McLaughlin, 161 Ill. 417, that the president was liable. That case was cited with approval in Butler Paper Company *vs.* Cleveland, 228 Ill. 128. For the law in most States see answer to question No. 24.

18. Under what circumstances may the directors of a corporation be liable for dividends paid? Explain fully, and state to whom the directors are liable.

Answer. Section 28 of the Stock Corporation Law of the State of New York provides: "The directors of a stock corporation shall not make dividends, except from the surplus profits arising from the business of such corporation, nor divide, withdraw or in any way pay to the stockholders, or any of them, any part of the capital of such corporation, or reduce its capital stock, except as authorized by law. In case of any violation of the provisions of this section, directors, under whose administration the same may have happened, except those who may have caused their dissent therefrom to be entered at large upon the minutes of such

directors at the time, or were not present when the same happened, shall jointly and severally be liable to such corporation and to the creditors thereof, to the full amount of any loss sustained by such corporation or its creditors respectively by reason of such withdrawal, division or reduction."

Section 664 of the Penal Law provides in part as follows: "A director of a stock corporation who concurs in any vote or act of the directors of such corporation, or any of them, by which it is intended: To make a dividend, except from the surplus profits arising from the business of the corporation, in the cases and manner allowed by law * * * is guilty of a misdemeanor."

It will be seen, therefore, that the directors are liable to the corporation, to the creditors and to the State.

19. State the procedure necessary in New York State for dissolving a corporation.

Answer. Corporations may be voluntarily or involuntarily dissolved. The question seems to require the procedure for voluntary dissolution.

A corporation may be dissolved by voluntary proceedings in one of two ways:

The first method is governed by Section 221 of the General Corporation Law, which provides as follows:

"The board of directors of any such corporation may, at a meeting called for that purpose, upon at least three days' notice to each director, by a vote of a majority of the whole board, adopt a resolution that it is in their opinion advisable to dissolve such corporation forthwith, and thereupon shall call a meeting of the stockholders for the purpose of voting upon a proposition that such corporation be forthwith dissolved. Such meeting of the stockholders shall be held not less than thirty nor more than sixty days after the adoption of such resolution, and the notice of the time and place of such meeting so called by the directors shall be published in one or more newspapers published and circulating in the county wherein such corporation has its principal office, at least once a week for three weeks successively next preceding the time appointed for holding such meeting, and on or before the day of the first publication of such notice a copy thereof shall be served personally on each stockholder, or mailed to him at his last known post-office address. Such meeting shall be held in the city, town, or village in which the last preeceding annual meeting of the corporation was held, and said meeting may, on the day so appointed, by the consent of a majority in interest of the stockholders present, be adjourned from time to time, and notice of such adjournment shall be published in the newspapers in which the notice of the meeting was published. If at any such meeting the holders of two-thirds in amount of the stock of the corporation then outstanding shall, in person or by attorney, consent that such dissolution shall take place and signify such consent, in writing, then such corporation shall file such consent, attested by its secretary or treasurer, and its president or vice-president, together

with the powers of attorney signed by such stockholders executing such consent by attorney, with a statement of the names and residences of the then existing board of directors of said corporation, and the names and residences of its officers duly verified by the secretary or treasurer or president of said corporation, in the office of the Secretary of State.

The Secretary of State shall thereupon issue to such corporation, in duplicate, a certificate of the filing of such papers and that it appears therefrom that such corporation has complied with this section in order to be dissolved, and one of such duplicate certificates shall be filed by such corporation in the office of the clerk of the county in which such corporation has its principal office; and thereupon such corporation shall be dissolved and shall cease to carry on its business, except for the purpose of adjusting and winding up its business. The board of directors shall cause a copy of such certificate to be published at least once a week for two weeks in one or more newspapers published and circulating in the county in which the principal office of such corporation is located, and at the expiration of such publication, the said corporation, by its board of directors, shall proceed to adjust and wind up its business and affairs, with power to carry out its contracts and to sell its assets at public or private sale, and to apply the same in discharge of debts and obligations of such corporation, and after paying and adequately providing for the payment of such debts and obligations, to distribute the balance of assets among the stockholders of said corporation, according to their respective rights and interests.

Said corporation shall nevertheless continue in existence for the purpose of paying, satisfying and discharging any existing debts or obligations, collecting and distributing its assets, and doing all other acts required in order to adjust and wind up its business and affairs, and may sue and be sued for the purpose of enforcing such debts or obligations, until its business and affairs are fully adjusted and wound up.

After paying or adequately providing for the debts and obligations of the corporation, the directors may, with the written consent of the holders of two-thirds in amount of the capital stock, sell the remaining assets or any part thereof to a corporation organized under the laws of this or any other state, and engaged in a business of the same general character, and take in payment therefor the stock or bonds, or both, of such corporation and distribute them among the stockholders, in lieu of money, in proportion to their interest therein, but no such sale shall be valid as against any stockholder who within sixty days after the mailing of notice to him of such sale shall apply to the supreme court, in the manner provided by Section 17 of the Stock Corporation Law for an appraisal of the value of his interest in the assets so sold unless within thirty days after such appraisal the stockholders consenting to such sale, or some of them, shall pay to such objecting stockholder, or deposit for his account, in the manner directed by the court, the amount of such appraisal, and upon such payment or deposit the interest of such objecting stockholder shall vest in the person or persons making such payment or deposit."

Another method of dissolving a corporation is provided by the General Corporation Law. Under this method, whenever the management of a corporation is equally divided so that there is a deadlock, or whenever the assets are insufficient to pay all just demands, or whenever the directors deem it benefical to the interests of the stockholders to dissolve the corporation, a petition may be presented to the Supreme Court praying for a final order dissolving the corporation. The petition must set forth in full the financial condition of the company, with an inventory of the property, of the books, vouchers, securities, indebtedness, etc. An order is then procured requiring all persons to show cause why the corporation should not be dissolved. This order is published at least once in each of the three weeks immediately preceding the time fixed therein for showing cause, in one or more newspapers, specified in the order, published in the city or county wherein the order is entered. A referee may be appointed. In a proper case the court will then make a final order dissolving the corporation and appointing one or more receivers of its property.

20. (a) How are foreign corporations authorized to transact business in Michigan? (b) And what franchise fee is required from them? (c) How is a corporation created in Michigan? (d) And how many incorporators are required by law? (e) What is the minimum and maximum authorized capital at which corporations may capitalize in Michigan? (f) How may the dissolution of a corporation be effected, and (g) for what particular reason would a corporation's charter be forfeited?

Answer. (a) Foreign corporations may obtain authority for transacting business in Michigan by procuring a certificate of authority from the Secretary of State. The procedure for obtaining this is as follows: File with the Secretary of State a certified copy of corporation's charter and evidence of the appointment of an agent on whom service of process can be made; pay the requisite recording, filing and franchise fees; file a statement sworn to by at least two of the following officers: President, secretary, treasurer or superintendent. This statement should contain the following facts and be in form substantially as follows:

....
.........., 19......

To the Secretary of State, Lansing, Michigan:

...................., a foreign corporation organized and existing under and by virtue of the laws of the State of ...., hereby makes the following declaration, pursuant to an act of the legislature of Michigan, entitled "An act to prescribe the terms and conditions on which foreign corporations may be admitted to do business in Michigan," approved June 6, 1901, as amended:

1. The location of its principal business is.........................
The location of its principal place or places of business..............
The names and addresses of the principal officers are................

2. The location of its principal office and the principal place of business in Michigan ....

The names and addresses of the officers or agents of the company in charge of its business in Michigan are....................

3. The authorized capital stock of said corporation is .... dollars ($................).

4. The total value of the property owned and used by the company in its business, giving the location and general character, and stating separately the value of its tangible property, of its cash and credits, its franchises, patents, trade marks, formulas, good will, is...............

5. The value of property owned and used in Michigan and where situated, showing different kinds, as in item four................

6. The total amount of business transacted during the preceding year................

7. The amount of business, if any, transacted in Michigan............

8. The particular purpose or particular kind of business for which the company desires to be admitted is the following................

9. Its corporate term will expire................

In witness whereof, said................has caused its corporate seal to be affixed and its name to be hereunto attached this............day of ...., A. D. 19.........

....

(L. S.)

By.......................

State of................, *County of*................, ss.

......................., being duly sworn, depose and say, that they are officers, to wit, the................and................respectively, of ....; that the foregoing statement, executed in the name and on behalf of said corporation, and under its corporate seal, is true.

....

....

Sworn to before me and subscribed in my presence, this.............. day of.............., A. D. 19.....

....

My commission expires.............., 19.........

Office of the Secretary of State.

Lansing, Michigan, ..., 19.....

From the foregoing statement made by the said.................., and from other facts coming to my knowledge, I find the proportion of the capital stock of the company represented by its property and business in Michigan to be..............per cent. of its authorized capital stock, to wit, the sum of................dollars, on which the franchise fee of one-half of one mill on each dollar will be the sum of.............dollars.

....

Deputy Secretary of State.

(b) Foreign companies are required to pay to the Secretary of State a franchise fee of one-half a mill (.0005) on each dollar of the proportion of their authorized capital stock represented by the property owned and used and business transacted in Michigan. In case such corporations are not at the time of admission carrying on any business outside of Michigan, they are required to pay a franchise fee on their entire authorized capital stock. The minimum fee is twenty-five ($25.00) dollars.

The fees payable to the Secretary of State, in addition to the franchise fee, are as follows:

For recording articles of incorporation, twenty cents per folio.

For filing same, one dollar.

For issuing certificate of authority, twenty-five cents.

(c) Corporations may be formed under general laws, but shall not be created, nor shall any rights, privileges or franchises be conferred upon them by special act of the legislature. Section 9 of Act No. 232, Public Acts of 1903, provides:

"Before any corporation organized under this act to operate in this State shall commence business, the president shall cause the articles of association to be recorded, at the expense of said corporation, in the office of the Secretary of State of this state, and in the office of the county clerk of the county in which such operations are to be carried on, and before any corporation organized hereunder, to operate outside this state, shall commence business, the president shall cause the articles of association to be recorded, at the expense of the corporation, in the office of the Secretary of State and in the office of the county clerk of the county in this state where the office of the corporation is located. The Secretary of State and the county clerk in whose office such articles of association shall be recorded, shall each certify upon every such articles of association recorded by him, the time when it was received, with a reference to the book and page where the same is recorded, and the record, or transcript of the record, certified by the Secretary of State of this State, and under the seal thereof, shall be received in all the courts of this State as *prima facie* evidence of the due formation, existence and capacity of such corporation in any suit or proceedings brought by or against the same. And in case of companies organized under Act Number Forty-one, laws of eighteen hundred and fifty-three and amendments thereto, and whose original articles of association and amendments are filed in the office of the Secretary of State, copies of such articles of association or amendments, duly authenticated by the Secretary of State under the seal of the State, shall be received in all courts of this State as *prima facie* evidence of the things therein stated." The following is a blank form of articles of association:

"ARTICLES OF ASSOCIATION OF................

"We, the undersigned, desiring to become incorporated under the provisions of Act No. 232, of the Public Acts of 1903, entitled 'An act to revise and consolidate the laws providing for the incorporation of manu-

facturing and mercantile companies, or any union of the two, and for the incorporation of companies for carrying on any other lawful business, except such as are precluded from organization under this act by its express provisions, and to prescribe the powers and to fix the duties and liabilities of such corporations,' and the acts amendatory thereof and supplementary thereto, do hereby make, execute and adopt the following articles of association, to wit:

1. The name assumed by this association, and by which it shall be known in law, is..................

2. The purpose or purposes of this corporation are as follows:.................

3. The principal place at which operations are to be conducted is at ...., in the county of.............., State of...............

4. The capital stock of the corporation hereby organized is the sum of................dollars.

5. The number of shares into which the capital stock is divided is ...., of the par value of................dollars each.

6. The amount of capital stock subscribed is the sum of.............. dollars.

7. The amount of said stock actually paid in at the date hereof is the sum of................dollars, of which amount................dollars has been paid in cash, and................dollars has been paid in other property, an itemized statement of which, with the valuation at which each item is taken, is as follows, viz:................

8. The office in the State of Michigan for the transaction of business shall be kept at................

9. The term of existence of this corporation is fixed at.............. years from the date hereof.

10. The names of the stockholders, their respective residences and the number of shares of stock subscribed for by each are as follows:

Names.	Residences.	No. of Shares.
....	....	....
....	....	....
....	....	....

IN WITNESS WHEREOF, we, the parties hereby associating for the purpose of giving legal effect to these articles, hereunto sign our names, this ....day of.............., A. D. 19....

Names.	Names.
....	....
....	....
....	....

State of Michigan, County of................, ss.

On this.................day of................, 19...., before me, a ....in and for said county, personally appeared.............., known to me to be the persons named in, and who executed the foregoing

instrument, and severally acknowledged that they executed the same freely and for the intents and purposes therein mentioned.

....

....

My commission expires................, 19....

State of Michigan, County of................., ss.

..................and................., being duly sworn, do depose and say that they are three of the organizers of the................Company, whose articles of association are hereto attached; that they know the property described in Art. 7 of such articles of association and taken in payment for capital stock, and that the same has been actually transferred to such corporation, and further say that said property is of the actual value of................dollars. And further say not.

....

....

....

Subscribed and sworn to before me this..............day of............, A. D. 19.....

My commission expires................

(d) Three or more incorporators may form a corporation in Michigan.

(e) The minimum is $1,000 and the maximum is $25,000,000. (Act. No. 232, Public Acts 1903, Sec. 2, par. 4.)

(f) Dissolution may be effected only by application to the courts.

(g) Corporate charters may be dissolved for entering illegal combines or trusts, for attempting to act as a corporation when not legally organized and for mis-user or non-user of corporate powers. (Compiled Laws, 1897, Secs. 8618, 8657, 9354m.)

21. Name two circumstances under which a director of a corporation organized in Maryland under the general corporation law of the State would be held personally liable for debts of a corporation. To what extent would he be liable?

Answer. Chapter 240 of the Laws of 1908, Section 50, of the Laws of Maryland, provides:

"If the trustees, managers or directors of any such corporation shall declare and pay any dividend when the corporation is insolvent, or any dividend the payment of which would render it insolvent, or would diminish the amount of the capital stock, they shall be jointly and severally liable to the extent of the dividends so declared and paid for all the debts of the corporation then existing, and also for all that shall thereafter be contracted, while they shall respectively continue in office, even although the whole amount of the capital of said corporation has been paid in.

"No loan of money shall be made by any corporation to any stockholders or directors therein, and if any such loan shall be made, the officer

or officers or directors who shall make it or assent thereto shall be jointly and severally liable for all the debts of said corporation to the extent of the loss that may result from such loan; but this does not apply to any building or homestead association, or any corportion whose principal business under its charter is to loan money on real or personal property, or to any corporation receiving and authorized to receive money on deposit, or to any life insurance company lending money to any of its policy-holders or their policies."

22. A corporation that had two issues of bonds outstanding namely, first mortgage bonds dated 1890, and second mortgage bonds dated 1900, acquired the property of a competitive corporation subject to its first mortgage bonds dated 1902. The first corporation thereafter issued consolidated mortgage bonds dated 1906, covering all its properties, and retired its first mortgage bonds dated 1890. State the order of precedence of the three outstanding mortgages in case of liquidation, giving the position of each property as regards the several outstanding mortgages.

Answer. The holders of the bonds of 1902 have a priority of claim in the property of the competitive corporation. After they have been paid out of the property of that corporation the holders of the consolidated mortgage bonds of 1906 are entitled to payment from that property. Although the question does not state definitely the terms of the mortgage of 1906, it is inferred that it was a refunding mortgage to a certain extent and that the bonds dated 1890 were retired by exchange for the bonds of 1906, or the proceeds of those bonds, and in that event, the bonds of 1906 have a prior claim to the other property equal to the claim of the first bonds of 1890. The holders of the second mortgage bonds dated 1900, therefore, have a second claim on the property of the original corporation only. Seymour Thompson in the second edition of his authoritative work on corporations at Section 2263, says: "Where, under authority for refunding, old bonds are exchanged for new ones, and where, in the meantime, a second mortgage has been placed on the property, in such a case the new bonds exchanged for the old ones will be advanced to the security of the original mortgage, and will be entitled to priority over the second mortgage." (See also U. S. Rubber Co., *vs.* American, etc., Co. 181 U. S. 434.)

23. When persons associate themselves together as a corporation and the incorporation is defective or incomplete, what is their position as against the creditors of the corporation?

Answer. The liability of members of a defective corporation will not differ from that of members of a complete corporation if the elements of a "*de facto*" corporation are present. These elements are:

1. A general law under which the corporation could be legally formed.
2. A *bona fide* attempt to comply with the provisions of that law.
3. User of corporate powers.

If any of these elements are not present the members will be liable as partners. In some states the doctrine of "*de facto*" corporations is not recognized. (See question No. 17.)

24. Describe the following stocks and securities issued by corporations; state the assets securing them and their order of preference in the liquidation of a corporation: (a) preferred stock, (b) collateral trust bonds, (c) first mortgage bonds, (d) coupon notes, (e) consolidated mortgage bonds.

Answer. (a) The following definition and description of preferred stock is taken from Professor William H. Lough's "Corporation Finance":

"In most corporations all the stock is of one class and each share has an equal right to its proportion of the assets and earnings. Such stock is called 'common' because no share has any privileges which do not attach to all the other shares. In general, common stock may be defined as stock which does not possess any special or peculiar rights.

Other corporations, however, set aside certain amounts of stock in a separate class and grant to this class specific privileges. Such stock is called preferred. The usual preference consists in giving a fixed dividend to the stock preferred before any payment whatever is made to the common stock. This dividend may be 'cumulative'; that is, if profits are not enough to pay it in full in one or more years, the unpaid portion remains as a claim against earnings that must be settled before any payment is made to the common stock. Or it may be 'non-cumulative'; that is, if profits of preceding years are insufficient to cover the preferred stock dividend, the unpaid portion is wholly lost to the preferred stockholders, no matter how large the earnings in succeeding years may be. Let it be kept clearly in mind, however, that preference as to dividends is merely the usual, not the universal, privilege given to preferred stock. When the single statement that stock is 'preferred' is made, it is necessary to consult the charter and by-laws of the corporation in order to be sure as to the exact nature of the preference.

The stock may be preferred as to assets, as well as to dividends, or as to both. Futhermore, cumulative preferred stock may get a fixed dividend, and no more, which is the customary arrangement; it may get a fixed dividend and then, after the common stock has secured a fixed dividend, all the rest of the earnings may be divided equally between the two stocks, which the arrangement presumed by law, unless an expressed stipulation to the contrary is contained in either the charter or by-laws; or it may get a fixed dividend and the common stock a fixed dividend, and all the rest of the earnings may then go to the preferred stock, which is a very unusual arrangement."

(b) The following definition and description of collateral trust bonds is also taken from Professor Lough's, "Corporation Finance":

"With the growth of large holding companies a modified form of mortgage bond has come to be widely used. It is called a 'collateral

trust' bond because it is based on the securities of other companies owned by the bond-issuing corporation and deposited with a trustee as collateral security for the bondholders. The securities are covered by a deed of trust just as in the case of real property offered as security. The securities may consist either of stocks or of bonds of subsidiary companies or of a combination of both.

It would seem at first sight that a collaternal trust bond would not be worth much, especially when the collateral consists of stock. In such a case the collateral trust bond would be junior by several degrees to all underlying bonds of the subsidiary companies. In case any of the subsidiary companies go into bankruptcy and force the holding company to default, all that the trustee for the collateral trust bondholders can do is to take the stock posted as collateral. When he gets the stock he still is a long distance from having tangible property with which to satisfy the demands of the bondholders. Even when the collateral consists of bonds they are usually junior issues, and the collateral trust bondholders in case of default are very uncertain as to getting possession of real property."

(c) First mortgage bonds are those secured by a first mortgage on any given tangible property of a corporation. The mortgage is usually made out to a trustee or trustees who holds the mortgage deed of trust for the benefit of all the holders of bonds of the same series.

(d) The term "coupon notes" as used in this question probably refers to short time notes the interest on which is evidenced by coupons attached to the note.

(3) The term "consolidated" as applied to mortgage bonds usually indicates that they are underlying mortgages on specific parcels of property, which mortgages are usually to be taken up by an exchange of the bonds in the consolidated securities for the bonds secured by the underlying mortgage. Reference in every case should be made to the terms of the mortgage, for the consolidated mortgage bonds of one company may be so worded as to be so different in their nature and their rights to priority from the consolidated mortgage bonds of another company. It was held in the case of Caylus *vs.* N. Y. K. & S. R. C., 10 Hun. 295, that the word "consolidated" in a bond is sufficient to put the holder on inquiry as to what the real nature of the bonds are.

Upon liquidation of a corporation, the holders of the first mortgage bonds have the first preference. The holders of consolidated mortgage bonds are usually given whatever preference the bondholders had whose bonds have been taken up in exchange for the consolidated mortgage bonds. The holders of collateral trust bonds have a first lien on the collateral by which they are secured. The holders of coupon notes are in the position of unsecured creditors and have no lien upon the assets of the corporation. If the preferred stock is preferred as to assets, after all debts have been paid, they receive their share of the assets up to the par value of their stock before the common stock is entitled to participate. (See answer to question 22).

25. State the procedure in New York State by which public service corporations may issue bonds.

Answer. The Stock Corporation Law of New York, Section 6, provides in part as follows:

"In addition to the powers conferred by the general corporation law, every stock corporation shall have the power to borrow money and contract debts, when necessary for the transaction of its business, or for the exercise of its corporate rights, privileges or franchises, or for any other lawful purpose of its incorporation; and it may issue and dispose of its obligations for any amount so borrowed, and may mortgage its property and franchises to secure the payment of such obligations, or of any debt contracted for said purposes. Every such mortgage, except purchase-money mortgages and mortgages authorized by contracts made prior to May first, eighteen hundred and ninety-one, shall be consented to by the holders of not less than two-thirds of the capital stock of the corporation, which consent shall be given either in writing or by vote, at a special meeting of the stockholders called for that purpose, upon the same notice as that required for the annual meetings of the corporation, and a certificate under the seal of the corporation that such consent was given by the stockholders in writing, or that it was given by a vote at a meeting as aforesaid, shall be subscribed and acknowledged by the president or a vice-president, and by the secretary or an assistant secretary, of the corporation, and shall be filed and recorded in the office of the clerk or register of the county wherein the corporation has its principal place of business."

The issuing of bonds by certain kinds of public service corporations is governed by the Public Service Law (Sections 55 and 69). Thus, railroad, gas and electrical corporations proposing to issue bonds, notes or other evidences of indebtedness payable at periods of more than twelve months after date thereof must first obtain from the Public Service Commission an order authorizing such issue. Telephone, telegraph, navigation, ferry, stage coach, tramway, pipe line and water works corporations are not subject to the provisions of the Public Service Law.

26. The president of a company holds office for five years and renders considerable active service without asking for or receiving compensation. A new management takes possession of the affairs of the company and elects a new president. The former president claims that he is entitled to an allowance for salary. Would an action for compensation for the services be sustained? Give reasons.

Answer. The president of a corporation is not entitled to compensation unless:

a. There was a valid antecedent agreement contained in the by-laws or otherwise.

b. A contract to which his own vote was not essential so provided.

c. The services rendered were clearly outside the scope of his official duties.

27. Define a corporation. Who may dissolve it and under what conditions?

Answer. (See questions 1 and 19. In the answer to question 19 the two methods of voluntary dissolution were considered.) Section 102 of the General Corporation Law provides for the involuntary dissolution of corporations as follows:

"In either of the following cases, an action to procure a judgment, dissolving a corportion, created by or under the laws of the State, and forfeiting its corporate rights, privileges and franchises, may be maintained, as prescribed in the next section:

1. Where the corporation has remained insolvent for at least one year.
2. Where it has neglected or refused, for at least one year, to pay and discharge its notes or other evidences of debt.
3. Where it has suspended its ordinary and lawful business for at least one year.
4. If it has banking powers, or power to make loans on pledges or deposits, or to make insurances, where it becomes insolvent or unable to pay its debts, or has violated any provision of the act, by or under which it was incorporated or of any other act binding upon it.

An action specified in the last section may be maintained by the attorney-general in the name and in behalf of the people. And whenever a creditor or stockholder of any corporation submits to the attorney-general a written statement of facts, verified by oath, showing grounds for an action under the provisions of the last section, and the attorney-general omits, for sixty days after this submission, to commence an action specified in the last section, then, and not otherwise, such creditor or stockholder may apply to the proper court for leave to commence such an action, and on obtaining leave may maintain the same accordingly."

28. If the stock of a company is transferred before it is fully paid for, will the original stockholder be liable for the unpaid balance? Explain fully.

Answer. Sections 56 and 59 of the Stock Corportion Law provide for the liability of stockholders. A holder of stock is personally liable to creditors of the corporation to an amount equal to the amount unpaid on his stock for debts of the corporation contracted while such stock was held by him. Such liability cannot be enforced until judgment for the debt has been recovered against the corporation, and execution has been returned unsatisfied in whole or in part, and the amount due on such execution is the amount recoverable with costs against the stockholder. Stockholders are not personally liable for any debt of the corporation not payable within two years of the time it is contracted, nor unless an action for its collection shall be brought against the corporation within two years after the debt becomes due. No action shall be brought against the stockholder after two years from the time he ceased to be a stockholder. Stockholders may be held personally liable for debts owing to laborers,

servants and employees of the corporation if served with written notice by such person within thirty days after they have ceased serving the corporation.

29. (a) In what proportion to the actual paid-up capital of a Michigan corporation may preferred stock be issued? (b) What must be expressed on the face of preferred stock certificates as regards their redemption, etc.? (c) When cumulative dividends are permitted, what is the maximum rate per cent. per annum? (d) Does the preferred stock vote the same as the common stock? (e) Under what conditions would preferred stock have equal rights with the common stock in the control of a corporation? (f) Is the transfer upon the books of a corporation necessary to complete the assignee's ownership of a stock certificate? Explain fully.

Answer. (a) The preferred stock of a Michigan corporation shall at no time exceed two-thirds of the actual paid-in capital. (Act No. 232, Public Acts 1903, Sec. 35.)

(b) Section 35 of Act No. 232, Public Acts 1903, provides:

"Any such company shall have power to create and issue certificates for two kinds of stock, viz.: General or common stock, and preferred stock, which preferred stock shall at no time exceed two-thirds of the actual capital paid in, and shall be subject to redemption at par at a certain time to be fixed by the by-laws of said corporation, and to be expressed in the certificates therefor. And the holder of such preferred stock shall be entitled to a fixed dividend, payable quarterly, half-yearly or yearly, which said dividend shall be cumulative, payable at the time expressed in said certificate, not to exceed eight per cent. per annum, before any dividend shall be set apart or paid on the common stock. In no event shall the holder of such preferred stock be individually or personally liable for the debts or other liabilities of said corporation, excepting debts for labor. Said corporation shall be controlled by a board of directors elected by the preferred and common stockholders, excepting when otherwise provided in the articles of association or amendments thereto; provided always, if at any time upon a fair valuation of the assets of the corporation the common stock shall be impaired in an amount equal to ten per cent. thereof or any dividend due on the preferred stock shall remain unpaid for sixty days, the holders of the preferred stock shall have an equal right with the common stock, share and share alike, to participate in the election of directors and control of said corporation. If for any reason said corporation shall cease business or become insolvent then after the payment of all liabilities and debts the remainder of the assets of said corporation shall be applied first in payment in full of all preferred stock and then unpaid dividends due thereon, and the balance divided pro rata, share and share alike, among the holders of the common stock. Every corporation organized or existing under the provisions of this act may by a vote of three-fourths in interest of its capital stock amend its articles of association providing for the issue of preferred and common stock, in accordance with this section, in the same

manner and with the same effect as is now provided by Section 17 of this act relating to amending articles of association."

(c) See answer to (b) above.

(d) See answer to (b) above.

(e) See answer to (b) above.

(f) The assignee's title and rights become complete upon delivery of the certificate with a proper endorsement of assignment thereon. (McLean *vs.* Medicine Co., 96 Mich. 479.)

30. In respect to Illinois Corporation Law: (a) How many incorporators are required? If any exceptions, name them. (b) What is the limit of time for which incorporations can be had? (c) How soon after incorporation must a corporation organize and begin business?

Answer. (a) Any number of persons, not less than three nor more than seven may form a corporation in Illinois.

(b) The duration of a corporation may be for any period not longer than ninety-nine years, as the statement or application may provide. (General Corporation Laws, Sec. 2.)

(c) Upon the recording of the certification of complete organization of the corporation, the corporation shall be deemed fully organized and may proceed to business. Unless such company shall be organized and shall proceed to business as provided in this act, within two years after the date of such license, then such license shall be deemed revoked and all proceedings thereunder void. (General Corporation Laws, Sec. 4.)

31. Can a corporation legally purchase or otherwise become possessed of its own capital stock? Do the admissions of a stockholder or a director legally bind a corporation? Under what authority can a corporation issue a mortgage upon its own property?

(a) There is no staturory provision authorizing a corporation to purchase its own shares. The courts of the various jurisdictions in America are not agreed on this point, but the weight of authority holds that a corporation may without express statutory authority purchase its own shares, provided the purchase is entered into *bona fide* and does not endanger the claims of creditors. (Chicago, etc., R. R. Co. *vs.* Marseilles, 84 Ill. 145.)

(b) No. If a director acting within the scope of his duties as director, however, makes an admission, it will bind the company.

(c) There is no provision in the statutes of Illinois respecting the authority for executing a corporate mortgage. The directors, therefore, have that authority.

32. On whom does loss legally rest in case of a forged certificate of the capital stock of a corporation?

Answer. This question probably refers to over-issued and spurious stock which is void. The holder may sue the corporation and the officers who were interested in the issue of the said stock for damages, and may

join them in one action or sue them separately. If the stock is purchased from an officer who appears to be interested in the transaction, the receiver of the stock will be bound to inquire into the authority of the officer for issuing the stock. The person damaged will have to prove, of course, that he had no notice of the fraud involved in the transaction. In the absence of fraud, the vendor of a forged certificate cannot be held by the vendee. (See Cook on Corporations, Sections 291-8.)

33. What is a joint stock company? In what ways can it be compared with (a) a partnership, (b) an incorporated company?

Answer. The Cyclopedia of Law and Procedure defines a joint stock company as follows: "A joint stock company is an association of individuals for purposes of profit, possessing a common capital contributed by the members composing it, such capital being commonly divided into the shares, of which each member possesses one or more, and which are transferable by the owner." (For a history of joint stock companies, see 5 Albany Law Journal 19.)

The distinction between a joint stock company and a partnership, and between a joint stock company and an incorporated company, is indicated in answer to question 11.

34. Define treasury stock. What effect has the term "fully paid and non-assessable," written upon a stock certificate, in respect to the liability of stockholders to creditors of the company? Explain.

Answer. Treasury stock is sometimes used to indicate stock which has not been issued, but the weight of authority is to the effect that treasury stock is stock which has been issued and finds its way back to the treasury of the company through purchase, gift, forfeiture or otherwise.

For the answer to the second part of this question, see answer to question 7.

35. What is corporate stock, and how does it differ from bonds issued by a corporation?

Answer. By corporate stock is meant the undivided shares of interest which the stockholders have in the corporation. It represents ownership in the corporate property and the right to participate in the control of the corporation, but it does not attach to any particular part of the corporate property and represents such rights only as the law gives to stockholders. On the other hand, a bond is an evidence of indebtedness, and may be secured by a mortgage, in which event it is called a mortgage bond, or may be unsecured, in which case it is called a debenture.

36. By whom are the directors of a corporation usualy selected, and by whom are its officers generally chosen?

Answer. The directors of a corporation are elected by the stockholders. In some States, as, for example, New York and Pennsylvania, the directors for the first year are named in the certificate of incorporation.

The officers of a corporation are usually elected by the directors.

37. State generally who is entitled to file a bill to compel the officers and directors of a corporation to account for any breach of duty or breach of trust.

Answer. In general, a bill may be filed by a stockholder of a corporation to prevent a breach of duty or of trust, and the stockholders' rights in this respect are not affected by the amount of his holdings. A bill may be filed for the same purpose by a director to remedy the breaches of his co-directors.

Creditors are not usually given any right to interfere in the management of a corporation until they have reduced their debt to judgment and had an execution return unsatisfied. "The creditors of a corporation have no right, either at law or equity, merely because they are creditors, to interfere in the management, or to go into a court of equity to restrain it from making contracts or disposing of property, unless there is fraud or breach of trust to give the court of equity jurisdiction." ("Summary of Law of Private Corporations," by Leslie J. Tompkins.)

38. (a) What is a corporation? (b) What is a charter of a corporation? (c) Distinguish between a public corporation and a private corporation. (d) How is a corporation organized? (e) Through whom does a corporation act in transacting its business?

Answer. (a) See answer to question (1).

(b) In the days when corporations were formed by special act, the charter of a corporation was the legislative act which authorized certain persons to conduct their business as a corporation and which prescribed the manner in which the business was to be conducted and the corporation was to be managed. At the present time, the charter of a corporation usually consists of the certificate of incorporation, filed with the Secretary of State, together with the general corporation laws under which the corporation was formed, and the provisions of which apply to the management of the affairs of the corporation.

(c) See answer to question 13.

(d) A corporation is formed in Ohio by not less than five persons, the majority of whom must be citizens of the State. A certificate of incorporation must be subscribed and acknowledged by them and the official character of the officer taking the acknowledgment of the articles must be certified to by the clerk of the Court of Common Pleas of the county where the acknowledgment is taken. The articles are then filed and recorded with the Secretary of State, who issues a certified copy of the same. After the articles have been filed, the incorporators meet and fix the time and place for opening the books of subscription. Notice of this meeting must be inserted for thirty days in a newspaper published or of general circulation in the county or counties where the books are to be opened, but such notice may be waived by written agreement of all the incorporators entered on the corporate records. At the appointed time and place or places the subscription books may be opened. When ten per cent. of the capital stock has been subscribed, a majority of the incorpo-

rators may certify to that effect in writing to the Secretary of State. Thereupon a meeting of stockholders is called on thirty days' notice published as aforesaid for the purpose of electing directors. This notice may be waived by written consent of all the incorporators entered on the records in person or by proxy. The incorporators present at the first meeting of stockholders act as inspectors of election and appoint the time and place for the first directors' meeting. At the first meeting of directors the officers are elected and the organization is completed.

(e) A corporation transacts its business through the Board of Directors. The powers of the Board of Directors, in most States, may be delegated to an executive committee made up of members of the board.

39. (a) What is cumulative preferred stock? Wherein does it differ from non-cumulative stock? (b) What are a stockholder's rights with respect to the books of a corporation? (c) Under what theory is a corporation stockholder liable to creditors for unpaid subscriptions to corporation stock? (d) Out of what funds may dividends be paid? (e) If dividends are not paid in accordance with your answer to the preceding question, have the creditors of the corporation any action against the company or its stockholders?

Answer. (a) See answer to question 24.

(b) The General Code of Ohio, Section 8673, provides: "The directors of such corporation, when organized, shall keep a record of all stock subscribed and transferred, and its secretary or recording officer shall register all subscriptions and transfers of stock. For that purpose, a book shall be kept, and when a certificate of stock is assigned and delivered by a stockholder, the assignee thereof on demand may have it duly transferred therein by such officer, who at the time shall enroll also the name of the assignee as a stockholder. The books and records of such corporation, at all reasonable times, shall be open to the inspection of every stockholder."

(c) The liability of a stockholder to the corporation for unpaid subscriptions rests on the theory that a contract has been made with the corporation which must be carried out. This contract becomes an asset of the corporation, which may be reached like all other assets by the judgment creditor.

(d) Dividends are paid out of surplus profits. In order to ascertain the surplus profits from which a dividend may be made, the Ohio statutes provide that in the account of profit and loss there shall be charged and deducted from the actual profits: "(1) All ordinary and extraordinary expenses, paid or incurred, in managing the affairs and transacting the business of the corporation. (2) Interest paid, or then due or accruing, on debts it owes. (3) All losses of the corporation. In computing its losses, debts owing to it which have been due without prosecution, or interest paid thereon, for more than one year, or upon which judgment was recovered, but has been more than two years unsatisfied, and on

which also for that period no interest was paid, shall be included." (General Code of 1910, Section 8726.)

(e) Section 8728, of the General Code of 1910, provides:

"Every director of such a corporation who violates, or is concerned in violating, any provision of the next four preceding sections shall be personally liable to its creditors and stockholders for any loss which thereby they respectively sustain."

40. (a) What is the minimum amount of capital necessary for a business corporation formed under the statute? (b) How many persons are necessary to form a corporation in New York? (c) How are directors chosen? (d) Define municipal corporation, stock corporation. (e) Is a corporation liable to forfeiture of its charter for non-user? If so, in what case?

Answer. (a) Five hundred dollars. (b) Three or more persons. (c) The directors for the first year are named in the certificate of incorporation. Thereafter they are chosen by the stockholders at a time and place fixed by the by-laws of the corporation. A choice is made by the plurality of the votes cast at the election. Cumulative voting may be insisted upon only when the certificate of incorporation so provides.

(d) A municipal corporation includes a county, town, school district, village and city, and any other territorial division of the State established by law with powers of local government.

The statute defines a stock corporation as a corporation having a capital stock divided into shares and which is authorized by law to distribute to the holders thereof dividends or shares of the surplus profits of the corporation. A corporation is not a stock corporation because of having issued certificates, called certificates of stock, but which are in fact merely certificates of membership, and which is not authorized by law to distribute to its members any dividends or share of profits arising from the operations of the corporation.

(e) Section 36 of the General Corporation Law of New York provides in effect that if any corporation, except certain forms of public service corporations, shall not organize and commence the transaction of its business or undertake the discharge of its corporate duties within two years from the date of its incorporation, its corporate powers shall cease. Section 131 of the General Corporation Law provides that the attorney-general may bring an action vacating the charter and annuling the existence of a corporation upon the ground that it has forfeited its privileges or franchises by a failure to exercise its powers.

41. (a) Has the treasurer of a corporation, as such officer, any authority to bind the corporation by a contract for work, labor and services? (b) Can the stockholders of a business corporation lawfully authorize a transfer of its entire property to another corporation in exchange for the stock of the latter? Explain.

Answer. (a) The treasurer of a corporation, as such officer, has no authority to bind the corporation by a contract for work, labor or services unless otherwise provided for in the by-laws.

(b) Section 16 of the Stock Corporation Law provides:

"A stock corporation, except a railroad corporation, and except as otherwise provided by law, with the consent of two-thirds of its stock, may sell and convey its property, rights, privileges and franchises, or any interest therein, or any part thereof, to a domestic corporation engaged in a business of the same general character, or which might be included in the certificate of incorporation of a corporation organizing under any general law of this State for a business of the same general character, and a domestic corporation, the principal business of which is carried on in, and the principal tangible property of which is located within, a State adjoining the State of New York, may, with the consent of the holders of ninety-five per centum of its capital stock, sell and convey its property situate without the State of New York, not including its franchises, to a corporation organized under the laws of such adjoining State, and such sale and conveyance shall, in case of a sale to a domestic corporation, vest the rights, property and franchises thereby transferred, and in case of a sale to a foreign corporation, the property sold in the corporation to which they are conveyed for the term of its corporate existence, subject to the provisions and restrictions applicable to the corporation conveying them. Before such sale or conveyance shall be made, such consent shall be obtained at a meeting of the stockholders called upon like notice as that required for an annual meeting."

42. (a) Where in New York must a corporation file the annual report required by law? (b) What must this report contain? (c) What remedy has a director when the annual report, despite his protest, has not been filed? (d) What is the penalty for failure to file an annual report?

Answer. (a), (b) and (d) These questions are answered by Section 34 of the Stock Corporation Law, which provides as follows:

"Every domestic stock corporation and every foreign corporation doing business within this State, except monied and railroad corporations, shall annually, during the month of January, or, if doing business without the United States, before the first day of May, make a report as of the first day of January, which will state:

(1.) The amount of its capital stock and the proportion actually issued.

(2.) The amount of its debts or an amount which they do not exceed.

(3.) The amount of its assets or an amount which its assets at least equal.

(4.) The names and addresses of all the directors and officers of the company, and in the case of a foreign corporation, the name also of the person designated in the manner prescribed by the Code of Civil Procedure as a person upon whom process against the corporation may be served within this State.

Such report shall be made by the president, or a vice-president, or the treasurer or a secretary of the corporation, and shall be filed in the office of the Secretary of State. If such report be not so made and filed, any such officer who shall thereafter neglect or refuse to make and to file such report within ten days after the written request so to do shall have been made by a creditor or by a stockholder of the corporation shall forfeit to the people the sum of fifty dollars for every day he shall so neglect or refuse."

(c) This question probably refers to Chapter 564 of the Laws of New York of 1890, which provided that if such report were not made and filed all the directors of the corporation would jointly and severally be personally liable for all debts of the corporation then existing and for all contracted before such report should have been made. The law read on this point as follows:

"If such report is not made and filed, all the directors of the corporation shall jointly and severally be personally liable for all the debts of the corporation then existing and for all contracted before such report shall be made. No director shall be liable for the failure to make and file such report if he shall file with the Secretary of State, within thirty days after the first day of January, or the first day of April, as the case may be, a verified certificate stating that he has endeavored to have such report made and filed, but that the officers or a majority of the directors have refused and neglected to make and file the same, and shall append to such certificate a report containing the items required to be stated in such annual report, so far as they are within his knowledge or are obtainable from sources of information open to him and verified by him to be true to the best of his knowledge, information and belief."

These harsh provisions, however, have been repealed, and the law now stands as quoted above in answer to questions (a), (b) and (d).

43. (a) To what amount may a stockholder in a business corporation be held liable personally when sued on his stockholder's liability? (b) Must two or more corporations wishing to consolidate into one be engaged in the same kind of business? (c) How would such a consolidation affect the rights of previous creditors of the constituent corporations? (d) After the voluntary dissolution (under the statute) of a business corporation, what would be the status of a director thereof, respecting claims in favor of or against such corporation?

Answer. (a) This question is answered by Sections 56, 57, 58 and 59 of the Stock Corporation Law, which are as follows:

"Every holder of capital stock not fully paid, in any stock corporation, shall be personally liable to its creditors to an amount equal to the amount unpaid on the stock held by him for debts of the corporation contracted while such stock was held by him. As to existing corporations, the liability imposed by this section shall be in lieu of the liability imposed upon stockholders of any existing corporation, under any general or special

law, excepting laws relating to monied corporations and corporations and associations for banking purposes, on account of any indebtedness hereafter contracted, or any stock hereafter issued; but nothing in this section contained shall create or increase any liability of stockholders of any existing corporation under any general or special law.

The stockholders of every stock corporation shall jointly and severally be personally liable for all debts due and owing to any of its laborers, servants or employees, other than contractors, for services performed by them for such corporation. Before such laborer, servant or employee shall charge such stockholder for such services, he shall give him notice in writing within thirty days after the termination of such services that he intends to hold him liable, and shall commence an action therefor within thirty days after the return of an execution unsatisfied against the corporation upon a judgment recovered against it for services.

No person holding stock in any corporation as collateral security, or as executor, administrator, guardian or trustee, unless he shall have voluntarily invested the trust funds in such stock, shall be personally subject to liability as a stockholder; but the person pledging such stock shall be considered the holder thereof, and shall be liable as stockholder, and the estates and funds in the hands of such executor, administrator, guardian or trustee shall be liable in the like manner and to the same extent as the testator or intestate, or the ward or person interested in such trust fund would have been if he had been living and competent to act, and held the same stock in his own name, unless it appears that such executor, administrator, guardian or trustee voluntarily invested the trust funds in such stocks, in which case he shall be personally liable as a stockholder.

No action shall be brought against a stockholder for any debt of the corporation until judgment therefor has been recovered against the corporation and an execution thereon has been returned unsatisfied in whole or in part, and the amount due on such execution shall be the amount recoverable, with costs, against the stockholder. No stockholder shall be personally liable for any debt of the corporation not payable within two years from the time it is contracted, nor unless an action for its collection shall be brought against the corporation within two years after the debt becomes due; and no action shall be brought against a stockholder after he shall have ceased to be a stockholder for any debt of the corporation unless brought within two years from the time he shall have ceased to be a stockholder."

(b) Under Section 15 of the Stock Corporation Law and Section 7 of the Business Corporation Law it is provided that corporations may merge or consolidate only when they are engaged in business of a similar nature.

(c) This question is answered by Section 10 of the Business Corporation Law, which provides as follows:

"Upon the consummation of such act of consolidation, all the rights, privileges, franchises, and interests of each of the corporations, parties to

the same, and all the property, real, personal, and mixed, and all the debts due on whatever account to either of them, as well as all stock subscriptions and other things in action belonging to either of them, shall be taken and deemed to be transferred to and vested in such new corporation, without further act or deed; and all claims, demands, property, and every other interest shall be as effectually the property of the new corporation as they were of the former corporations, parties to such agreement and act; and the title to all real estate, taken by deed or otherwise, under the laws of the State, vested in either of such corporations, parties to such agreement and act, shall not be deemed to revert or be in any way impaired by reason of this chapter, or anything done by virtue thereof, but shall be vested in the new corporation by virtue of such act of consolidation; and all the rights, privileges, franchises and property of the corporations, parties to any consolidation heretofore made under this chapter, shall vest as fully in the new corporation thereby created as they were vested in the corporation, parties to such consolidations."

(d) The answer to this question will be found in Section 35 of the General Corporation Law:

"Upon the dissolution of any corporation, its directors, unless other persons shall be appointed by the legislature, or by some court of competent jurisdiction, shall be the trustees of its creditors, stockholders, or members, and shall have full power to settle its affairs, collect and pay outstanding debts, and divide among the persons entitled thereto the money and other property remaining after payment of debts and necessary expenses. Such trustees shall have authority to sue for and recover the debts and property of the corporation, by their name as such trustees, and shall jointly and severally be personally liable to its creditors, stockholders, or members, to the extent of its property and effects that shall come into their hands."

44. In a certain stock corporation only 50% of the subscribed capital has been paid. A has paid all the installments called and has loaned to the company an additional sum, for which he has taken its promissory note, and has transferred the note to B. B demands payment. May the company call further installments on A's stock, and offset the amount so called against the promissory note held by B? Explain your answer.

Answer. The point involved in this question is the right of the directors to make calls on specific stock without imposing some obligations on stock held by other subscribers. The law is well settled that calls on stock partially paid must be impartial and uniform. The directors in this case, therefore, were not justified in making a call on A's stock, and the call, therefore, is void.

45. Describe the Interstate Commerce Commission, giving its powers, State fully how it gets its constitutional rights of jurisdiction, and on what railroads it may exercise its powers.

Answer. The Interstate Commerce Commission was formed under the Act of February 4, 1887, entitled "An Act to Regulate Commerce." The Commission has jurisdiction on complaint, and after full hearing to determine and prescribe reasonable rates, regulations and practices, and to order reparation to injured shippers; it may require any carrier to cease and desist from unjust discrimination, or undue or unreasonable preference, and it may institute and carry on proceedings for the enforcement of the law. The Commission may also inquire into the management of the business of all common carriers, subject to the provisions of the regulating statutes, and it may prescribe the accounts, records, and memoranda which shall be kept by the carriers and may from time to time inspect the same. Carriers must file annual reports with the Commission, and such other reports as from time to time may be required. These are the main powers conferred by the Act of 1887 and the Amendatory Acts. The Act applies to all common carriers engaged in interstate commerce, and by that is meant commerce with foreign countries, amongst the various States. or in the territories of the United States. The authority of Congress to pass such an Act is based on Section 8 of the United States Constitution, which provides in part that "Congress shall have power to regulate commerce with foreign nations and among the several States, and with the Indian tribes."

46. From what sources are dividends to be paid? Who is responsible, and to what extent, if dividends are improperly paid? May a dividend be legally declared if former losses have impaired the value of the stock?

Answer. Dividends are declared from profits. The chief difficulty in ascertaining the fund from which dividends are to be paid arises out of the confusion of ideas, judicial and otherwise, on the subject of the true definition of the word "profits." The above question is ambiguous, for it is difficult to know just what is meant by the word "stock." If the examiner intended that word to be synonymous with "shares of capital stock," the answer to the third part of the question is that the value of the shares of the capital stock of a corporation has nothing to do with the right of the directors to declare a dividend. What is probably meant by the word "stock" is "capital." In England, previous losses need not be made up, "since a corporation may sink its capital in the purchase of property producing income and divide that income without making provision for keeping up the value of the capital, and the capital may be lost, but the excess of current receipts for current expenses may still be applied in payment of a dividend." (10 Cyc. 553.)

Cook says on this subject: "In estimating profits a year for the purpose of declaring a dividend, it is not necessary to take into account the decrease of the value of the assets and the impairment of the capital stock of the company prior to that year. The fact that in a year prior to the declaration of the dividend some portion of the capital has been lost and has not since been made good affords no ground for restraining the payment of a dividend out of profits subsequently earned." Cook, however,

cites a number of English cases to sustain this proposition, but gives not a single American citation. Probably the American law agrees with the New York statutory law, which provides that dividends must be paid out of "surplus profits." The following statement by Morawetz probably expresses the prevailing American view: "The fund provided for carrying on the business should therefore be kept up at its original amount; and if it has been reduced by loss, no dividend should be declared until the losses have first been made good."

The general statutes of Florida provide: "If the directors shall knowingly declare and pay any dividend when the corporation is insolvent, or any dividend the payment of which would render it insolvent, they shall be jointly and severally liable for the debts of the corporation then existing to the extent of the dividends so declared. If, however, any director be absent at the time of making the dividend or shall at the time object thereto in writing, he shall not be so liable." (Section 2691.) This statute not only answers the second subdivision of the above question but indicates that the Florida statutory law in respect to the third subdivision agrees with the prevailing American view as above set forth.

47. Can a corporation in Illinois, organized to build and operate a railway, carry on the business of keeping a dry goods store? Give reasons for your answer and give general principles applicable.

Answer. Inasmuch as the business of keeping a dry goods store is not within the scope of the corporation's charter, the corporation would be engaged in *ultra vires* acts. The principle involved is well summed up in the case of Leslie *vs.* Lorillard, 110 N. Y. 519: "The contracts of corporations are said to be *ultra vires* when they involve some adventure or undertaking not within the scope of their charter, which is their rule of corporate action. In the granting of charters, the legislature is presumed to have had in view the public interest; and public policy is concerned in the restriction of corporations within charter limits, and a departure therefrom is only deemed excusable when it cannot result in prejudice to the public or to the stockholders. As artificial creations they have no power or faculties, except those with which they were endowed when created; and when, as is frequently the case, they act in excess of their powers, the question will be: Is the act prohibited as prejudicial to some public interest, or is it an act not unlawful in that sense, but prejudicial to the stockholders?"

In the case given in the above question, the corporation undoubtedly can be dissolved by an action brought by the attorney-general.

48. Can a corporation be organized in Illinois under the laws of that State to deal in real estate?

Answer. In the State of Illinois the Business Corporation Law expressly prohibits the formation of business corporations for the purpose of engaging in real estate brokerage.

On the general subject of the power of corporations to hold real estate, the following historical view, taken from Tompkins' "Summary of the Law of Private Corporations," is interesting:

"The common-law rule that corporations have an implied right to purchase such real estate as was necessary for the purposes of its business arose at a time when busines or trading companies were little known. The corporations of that day were either municipal, ecclesiastical, or charitable in their nature, and the first were naturally limited. The ecclesiastical and charitable corporations, however, invested their money in lands, for, indeed, there was little else, at that time, which would bring in an income. So much of the land was being accumulated by these corporations that the statutes of mortmain were passed, in which not only ecclesiastical, but lay corporations as well, were forbidden to purchase lands. These statutes were never enacted in the United States, however, save in the State of Pennsylvania, and a long line of decisions support the statement that corporations have ample power to purchase and hold such real estate as is necessary and reasonable, in order to carry out the purposes of its incorporation; and this implied power obtains in all cases where the charter or enabling statutes are silent."

Save in those cases where the charter confers general powers to purchase, a corporation cannot lawfully purchase real estate for any object inconsistent with the purposes for which it was created.

49. State the steps necessary for the formation of a joint stock association.

In what respects does it differ from an ordinary partnership, and in what respect does it resemble a corporation?

Answer. The first part of this question is covered by the Joint Stock Associations Law, Chap. 29 of the Consolidated Laws of New York, which in part is as follows:

"The articles of association of a joint stock association may:

1. Provide that the death of a stockholder thereof, or the transfer of his shares of stock therein, shall not work a dissolution of the association;

2. Prescribe the number of its directors, not less than three, to have the sole management of its affairs;

3. Contain any other provision for the management of its affairs not inconsistent with law." (Joint Stock Associations Law, Art. II, Section 3.)

"Every joint-stock association transacting business within this state shall, within sixty days after its formation, and in each January thereafter, file with the secretary of state, and with the clerk of the county in which its principal business is carried on, a written certificate, signed and verified by its president and treasurer, stating the name and date of organization of such association, the number of its stockholders, the names and places of residence of its officers, and its principal place of business.

Such certificates shall be recorded in such offices respectively. Any such certificate, the record thereof, or a certified copy of such certificate or record shall be presumptive evidence of the truth of all facts therein stated against such association, its officers and stockholders. The officers of a joint stock association who fail to comply with the provisions of this section shall be jointly and severally liable to pay to the people of this state a penalty of fifty dollars for each day such failure continues." (Joint Stock Associations Law, Art. III, Section 4.)

It will be seen, therefore, that the steps necessary for the formation of a joint stock association are as follows:

Draw up in triplicate a certificate of association which should state the name of the joint stock association, the date of its organization, the number of its stockholders, the names and residences of its officers, and its principal place of business. This will necessitate a meeting of the stockholders, at which the terms of the certificate shall be agreed upon. The certificate should be executed and one copy filed in the office of the Secretary of State, and one copy filed in the office of the Clerk of the County in which its principal business is carried on, within sixty (60) days after the meeting. Upon filing the certificate the organization is completed.

For an answer to the second part of this question see answer to question 33.

50. May a stockholder object to an act of his corporation as *ultra vires* after he has acquired and accepted pecuniary benefits thereunder, when such act is neither *malum prohibitum* nor *malum in se?*

Answer. It is now fairly well settled that where a stockholder acquiesces or ratifies an act which is *ultra vires* and which is neither *malum prohibitum* nor *malum in se*, he may not object to the act subsequently. Some courts invoke the doctrine of waiver, others of estoppel, and others rest their decisions upon the equitable principle that he who comes into equity must do so with clean hands. In Burden *vs.* Burden, (159 N. Y. 287, 54 N. E. 17), it was held that a shareholder cannot assail the right of his corporation to hold and own property conveyed to it as part of the scheme of organization entered into to settle differences between himself and his partner. For an extended discussion of this subject dwelling upon the effects of *laches*, acquiescence or ratification by a stockholder on his right to object to acts that are *ultra vires* and also *mala prohibita* or *mala in se*, see Cook on Corporations, Section 728.

An important case decided by the Court of Appeals in New York, April 25, 1911, (Pollitz *vs.* Gould, 94 N. E. 1088), settles the doctrine in New York that in the absence of special circumstances, a stockholder may sue in behalf of the corporation to avoid an improper transaction consummated before he acquired his stock. While the opinion distinctly says that the question of acquiescence by a stockholder is not involved in that case, certain *obiter dicta* is at least persuasive authority for the doctrine that

acquiescence in an *ultra vires* act prevents the stockholder from subsequently questioning it. The court said:

"It is argued that if one buys stock subsequently to the transaction, he should be regarded as buying subject to it, and not be permitted to question it. If the prior holder should give binding consent to the transaction, this under certain conditions undoubtedly would prevent the subsequent purchaser from questioning it. But, in the absence of special circumstances, I fail to see any principal of estoppel or logic which makes a subsequent purchase of stock so subject to a fraudulent corporate transaction that the purchaser may not insist upon its being set aside."

PART III.

C. P. A. Examination Papers.

Below is a reprint from The Journal of Accountancy of a contrast and comparison of the examination papers, given by the Illinois and Massachusetts respective State Boards of Accountancy at recent examinations for the C. P. A. certificate, with comments.

The following are representative problems of the second Massachusetts examination, held in June, 1910,

Monday, June 27, 1910—9 A.M. to 1.30 P.M.

THEORY OF ACCOUNTS

Answer questions 1, 2 and 3, and seven others, but no more. Do not repeat questions, but write answers only, designated by number stated in question paper.

1. Trace the various operations in a well regulated office from the time an order is given for the purchase of material until such material is paid for, to protect the company from any possible loss in the transaction.

2. In what ways may a bookkeeper, who is also the cashier, conceal thefts; his books are kept by double entry and apparently are correct?

3. Describe the theory of double entry bookkeeping and state its advantages.

4. Discuss the different methods of dealing with, first Repairs, and second Replacements, in connection with (*a*) a concern that writes off annually sufficient depreciation to cover the life of the machinery, and (*b*) a concern where no depreciation is written off, and where it is claimed the machinery is kept as good as new.

Can you name some other reason why depreciation should be considered, in respect to machinery, other than that of wear and tear?

5. On what basis should the following assets be valued in the preparation of a balance sheet: (*a*) Manufactured goods, (*b*) partially manufactured goods, (*c*) raw material, (*d*) accounts receivable, (*e*) stocks, bonds, and other investments, (*f*) notes receivable?

6. Explain how you would install a system of bookkeeping arranged so that only the proprietor, officers, and auditor shall be cognizant of its financial condition and annual profits or losses.

7. Purchases, sales, returns, and allowances are frequently posted to one account called Merchandise. Describe the limitations of an account so kept, and suggest, with your reasons therefor, an improved method of recording these transactions.

8. State your understanding of the difference between Gross Profit and Net Profit.

9. What is usually included in the account "organization expenses" in the books of the company? How should this account be treated? Give reasons.

10. In a statement of the earnings of a business to be sold on the basis of its earning capacity, how should the question of interest paid on accounts payable, on notes payable, and on loans be treated?

11. If any money has been received by a company on account of work in process, how should such repairs be treated?

12. Define (*a*) funded debt, (*b*) floating indebtedness, (*c*) fixed charges. May interest on floating debt properly be considered a fixed charge?

13. What is a contingent liability? For what purpose and in what form should such liabilities appear in a statement of financial condition?

14. What is a sinking fund?

15. What disposition should be made, by a trustee, of an amount received by him for the sale of the "rights" to subscribe to stock? Give reasons.

Monday, June 27, 1910—9 A.M. to 1.30 P.M.

COMMERCIAL LAW

Answer questions 16, 17 and four others, but no more. Do not repeat questions, but write answers only, designated by number stated in question paper.

16. (*a*) A and B are partners. A issues notes in the firm's name without B's knowledge and pockets the proceeds. Is the firm liable? If so, why?
(*b*) A firm owes $100,000 and has assets of $50,000. A owes $40,000 and has $18,000, B owes $2,000 and has $30,000. What are the rights of the firm creditors and the individual creditors, and how should the assets be distributed and why?

17. When is a merchant insolvent under the Bankruptcy Act? What constitutes an act of bankruptcy?

18. Explain the taxation in Massachusetts of (*a*) a foreign corporation, (*b*) a domestic corporation, (*c*) a firm,
(1) By whom taxed, method, and rate.
(2) Where they have factories in different towns within the state.
(3) Where they have factories, some in and some outside the state.
(4) Remedies for overtaxation.

19. Define General Partnership and Special Partnership.

20. (*a*) In organizing how should the capital stock of a Massachusetts corporation be paid?
(*b*) A Massachusetts corporation wishes to dissolve. How is it done?

21. Define real property, personal property.

22. Does a dividend on stock, declared before a testator's death but not payable till after his death, become a part of his estate or does it belong to the life tenant as income?

23. State the difference between a sale and a consignment.

24. Define the following:
(*a*) Contract.
(*b*) Bill of exchange.
(*c*) Promissory note; state essential of same.
(*d*) Chattel mortgage.

25. What constitutes an insurable interest in property?

Monday, June 27, 1910—2.30 P.M. to 6 P.M.

AUDITING

Answer questions 26, 27, 28, and seven others, but no more. Do not repeat question, but write answers only, designated by number stated in question paper.

26. What is an auditor? What are his duties and responsibilities? What are the objects to be attained by an audit?

27. Describe the plan of audit of the books of a concern other than a bank, with which you are personally familiar.

28. Describe the steps necessary to make a complete audit of a savings bank.

29. How may the correctness of the following items in a balance sheet be determined: (*a*) Accounts receivable, (*b*) securities, (*c*) inventory of finished stock, (*d*) inventory of raw materials, (*e*) bank balances, (*f*) accounts payable, (*g*) notes payable?

30. In preparing the balance sheet of a business at the close of a year, how should you treat each of the following items: (*a*) Bad and doubtful debts, (*b*) premiums for fire insurance unexpired, (*c*) interest paid in advance on notes payable discounted, (*d*) discount on accounts receivable, (*e*) discount on accounts payable, (*f*) depreciation of plant.

31. Describe the various steps to be taken in auditing the accounts of an executor for the first year after the death of the testator.

32. Describe the steps necessary to make a complete audit of a Trust Company.

33. What measures should be taken by an auditor to satisfy himself that all liabilities had been brought into the balance sheet?

34. A firm having several branches maintains an account with each branch in the Ledger and charges to such account all goods sent to the agents for stock. When stock is taken the balance of each branch account is treated as ordinary Accounts Receivable and is included in the General Debts owing to the firm. If you see any objections to this method, state them, and say how you would deal with the accounts.

35. State generally your views as to what constitutes capital expenditure and expenditure properly chargeable against revenue. Under what circumstances would an auditor be justified in refusing his certificate of audit?

36. In auditing the accounts at the conclusion of the first fiscal year of a corporation formed to acquire an established business what documents and records should be examined in addition to the ordinary books and subjects of an audit?

37. State what means should be adopted to verify (*a*) cash sales, (*b*) discounts allowed, (*c*) discounts received, (*d*) sold goods returned, (*e*) allowances on sales.

38. A manufacturing corporation desires a certificate of its average annual profits for three years; after charging up all costs, expenses and depreciation, and an allowance for bad debts, it is found that the profits for the first year were $62,000.00, for the second year $64,000.00 plus $10,500.00 profit on sale of investments, and for the third year $72,000.00 plus $8,400.00 profit on the sale of real estate. How would you write your certificate?

39. What is the duty of the accountant who undertakes to examine a going business for the purpose of issuing a certificate showing the net earnings of the business for the preceding five years to (*a*) the owners, (*b*) those investing money therein on the faith of the report?

40. What safeguards in accounting would you suggest to a client to prevent loss of stock by theft?

Wednesday, June 29, 1910—9 A.M. to 12 M.

PRACTICAL ACCOUNTING

PART I

Answer question 41, and one other, but no more. Do not repeat questions, but write answers only, designated by number stated in question paper.

41. On December 1, 1907, the following particulars are furnished of the position of John Mapleton, insolvent: Factory equipment cost, $15,000.00; estimated to realize, $10,000.00. Stock of finished goods, $10,000.00;

estimated worth, $7,500.00. Material and supplies, $2,500,00; estimated worth, $1,000.00. Furniture and fixtures, $900.00; estimated worth, $200.00. Investments valued at $25,275.00, of which $15,000.00 is held by bankers as security for a loan of $12,000.00. Accounts receivable $6,250.00, of which $2,500.00 are good; $1,250.00 bad, and $2,500.00 estimated to realize $1,500.00. Cash, $575.00, of which $25.00 represents petty expense items not charged up, and $50.00 an I. O. U. of a former employee which is worthless. Accounts payable, $28,500.00. Notes payable, $25,000.00, of which $12,000.00 is due bankers. Wages due, $500.00. Rents due and past due, $1,000.00. Capital on January 1, 1907, as shown by the books, $15,000.00. Loss by sale of investment May 1, 1907, $5,000.00. Loss in trading account January 1, 1907 to December 1, 1907, $3,500.00. Drawings charged personal account of John Mapleton, $1,000.00. Make up a statement of affairs and a Deficiency Account as at December 1, 1907.

42. The fiscal year of a manufacturing company ends June 30, 1908, and the bookkeeper presents a statement to the directors made up in the following form:

Gross sales	$285,000.00	
Increase of inventory	15,000.00	
		$300,000.00
Cost of sales:		
Operating expenses, material and supplies	$257,000.00	
Plant expense	12,000.00	
Freight on returned goods	600.00	
Sundry purchases, finished goods	10,400.00	280,000.00
		$20,000.00
Other income:		
Miscellaneous earnings	$1,500.00	
Profit on contracts	6,500.00	
Discount on purchases	500.00	8,500.00
		$28,500.00
Less:		
Discount on sales	$2,875.00	
Rebates and allowances	1,125.00	4,000.00
		$24,500.00

You are required to make up a Profit and Loss statement in regular form, using such of the above figures as may be necessary together with these following: Inventory, June 30, 1907. Material, $115,000.00. Supplies, $35,-000.00. Finished goods, $45,000.00—Inventory, June 30, 1908. Material, $140,000.00. Supplies, $10,000.00. Finished goods, $60,000.00. Material used in factory during the year, $75,000.00. Wages, $122,500.00. Fuel, $4,500.00. Repairs and renewals, $2,000.00. Other operating expenses, $55,000.00, which includes $25,000.00 supplies used.

43. A firm of four partners agree to sell their business to a corporation. Their assets and liabilities were as follows: No. 1—Capital, $145,500.00; No. 2—Capital, $123,500.00; No. 3—Capital, $153,000.00; No. 4—Capital, $152,330.00; Building, $125,000.00; Machinery, fixtures, etc., $38,335.00; Stock, $150,940.00; Accounts receivable, $328,680.00; Bills receivable, $37,005.00; Cash, $17,030.00; Horses and wagons, $1,230.00; Unexpired insurance, $175.00; Accounts payable, $124,065.00.

It was further agreed that the partners were to be paid for good will, based on a year and a quarter purchase of the last three years' profits, which were respectively $32,620.00, $37,450.00, and $50,650.00.

Prepare a Balance Sheet, bringing in the good will as an asset and distributing it among the four.

Wednesday, June 29, 1910—1.30 P.M. to 4.30 P.M.

PRACTICAL ACCOUNTING

PART II

Answer question 44 and one other, but no more. Do not repeat questions, but write answers only, designated by number stated in question paper.

44. A branch office business was started at the first of the year, the head office advancing $5,000.00 cash. During the first year merchandise was shipped to branch, invoiced at $75,000.00.

An auditor checking up the business at the close of the year finds the following:

Merchandise sales were $60,000.00, with selling price of goods twenty per cent advance on invoice.

Proper vouchers were on file duly receipted for following payments:

Rebates and allowances on damaged goods........	$1,500.00
Salaries and other expenses....................	4,500.00
Freights	2,500.00

The books also showed:

Remittances to head office.....................	$35,000.00
Uncollected accounts	15,000.00

The balance of the sales having been realized in cash, less rebates and allowances as noted.

The cash on hand and inventory of unsold goods, together with the foregoing records, properly account for everything.

Prepare statement, such as an auditor would make in reporting to the head office, balancing the business of the branch house.

45. Robert Adams and William Stevens are equal partners. On the night of July 3d, their stock and fixtures were destroyed by fire. A trial balance, which Adams had at his home, showed the following condition of the ledger at the close of business, June 30th:

Robert Adams	$600.00	$7,450.00
William Stevens	600.00	7,450.00
Cash	3,309.00	
Fixtures	1,500.00	
Merchandise purchases	32,600.00	
Merchandise sales		24,800.00
Notes receivable	1,000.00	
Notes payable		2,000.00
Interest	120.00	50.00
Expense	780.00	
Customers	4,500.00	
Creditors		3,259.00
	$45,009.00	$45,009.00

The property is fully covered by insurance. The insurance company, for the purpose of estimating the value of the merchandise destroyed, has agreed to allow 35 per cent as the average gross gain on the sales and to pay 66⅔ per cent on the value of fixtures as shown by the ledger. On the basis of this agreement, state the result of the business and the capital of each partner.

46. The capital of three partners—A, B, and C—in a manufacturing business, January 1, 1896, was $26,000.00, of which A owned one fifth. B two fifths, and C two fifths. On December 31, 1896, one year thereafter, the condition was found to be as follows:

Real estate, $15,000.00; plant and machinery, $7,000.00; stock on hand, $2,000.00; book debts receivable, $6,000.00; cash in bank, $2,500.00; creditors' notes payable, $8,000.00.

Partners'	withdrawals—	A	(including	interest)	$1,500.00
"	"	B	"	"	1,200.00
"	"	C	"	"	2,000.00

After crediting up interest on capital at the rate of six per cent, show the net result for the year, and distribute the same, in proper proportions, to the partners' accounts.

Prepare individual partners' accounts, showing the condition of each at the end of the year.

The following are the Problems and Questions of the Illinois Examination, held in December, 1910.

Wednesday, December 21, 1910—9.30 A.M. to 12.30 P.M.

Theory of Accounts

Seventy-five credits necessary to pass, out of a possible 100 credits. Each complete answer will receive ten credits. Do not repeat questions on examination papers, but write answers only, designating the questions

by number. The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers.

1. Irrespectively of the independent audit by a certified public accountant, how would you endeavor to organize the financial arrangements and the system of bookkeeping of a large firm or corporation, so that there might be the best internal check possible?

2. Give an example of that portion of a Balance Sheet of a corporation, which deals with the Share and Debenture Capital Account. State and set out the same in the proper columns, assuming the following to be the position of the Company's Share and Debenture Capital:

Share capital, authorized..............................	$100,000.00
Share capital, issued or subscribed..............	80,000.00
Share capital, called up..............................	60,000.00
Calls paid in advance.................................	5,000.00
Calls in arrear..	1,000.00
Debenture capital, authorized.......................	50,000.00
Debenture capital, issued or subscribed.........	40,000.00
Debenture capital, paid up...........................	35,000.00

3. An executor, on entering upon his duties, having asked you to give him instructions in writing how he should deal with and keep the accounts of his trust, specify your instructions in form of a letter.

4. A company, having $500,000.00 of Debentures, bearing five per cent interest, which have been in existence for some years, and which are repayable February 1, 1907, arranges to provide the necessary capital by the issue, at par, of $500,000.00 four per cent permanent Debenture Stock, the interest on which runs from January 1, 1907; the accounts of the company are made up to June 30, 1907. What, in your opinion, is the proper amount of Debenture Interest to be charged against the profits of the half year? Give the reasons upon which your opinion is based.

5. A firm is in the habit of supplying goods on the principle of sale or return, taking payments by installments covering principal and interest, the purchaser having the option to return the goods at any time, forfeiting the installments paid. How would you recommend that such conditional sales should be entered in the books of the selling firm, and how should the outstanding amounts be from time to time valued?

6. The calculation of the percentage of profits is sometimes based upon cost and sometimes upon selling price. Which do you regard as the more correct method? and how, if required, would you readily arrive at the cost of goods sold? Give your reasons.

7. In a large manufacturing concern purchases of material and supplies pass through the storekeeper. What system of bookkeeping and check would you advise to safeguard and control the distribution of both? Fully explain the same.

8. In closing the books of a company at the fiscal period, what steps would you take to insure that all liabilities to date had been included?

9. In taking off a trial balance, a bookkeeper finds that his debit footings exceed the credit by $131.56, which he carries to a suspense account. Later, he discovers that a purchase amounting to $417.50 has been debited to a creditor as $192.94; that $312.50 for depreciation of furniture has not been posted to depreciation account; that $500.00 withdrawn by the principal has been charged against wages account; that a discount of $76.13 allowed to a customer has been credited to him as $71.13, and that the total of sales returned was footed $5.00 short. Give detailed entries showing how you would remedy these errors, and starting with the original difference prepare a supplemental trial balance showing whether the books balance or not.

10. A corporation's profits for the year ended December 31, 1908, amount to $451,000.00. The by-laws require a reserve equal to ten per cent of any dividend paid to the common stockholders, and any surplus remaining after such dividend has been paid is also to be applied to the reserve, until such dividend has been paid is also to be applied to the reserve, until such reserve account amounts to $250,000.00. The reserve at December 31, 1907, was $156,020.00. The capital is $2,000,000.00—one half cumulative preference five per cent, and one half common, all fully paid. On December 31, 1908, the preferred dividend is two and one half years in arrear. On December 31, 1907, profit and loss account was in debit $202,000.00. Set out your treatment of the profit for 1908, and comment concisely on the position.

Friday, December 23, 1910—9.30 A.M. to 12.30 P.M.

Commercial Law

1. Name the necessary elements of a valid contract. What contracts under the law of Illinois are required to be in writing? What is the legal effect of attaching a seal to a contract?

2. Prepare a short form of partnership agreement for equal partners. Wherein does a partnership differ from a corporation?

3. What are the general obligations of a common carrier of goods? Of a carrier of persons? What is a bill of lading?

4. What is the Statute of Frauds?

5. How much of the capital stock of a corporation, organized under the laws of Illinois, must be paid in before a charter can be obtained? What are the obligations of a subscriber to the capital stock of a corporation organized under the laws of Illinois respecting payment for the stock subscribed for by him?

6. What is the lawful rate of interest in Illinois in the absence of a contract? To what rate may the parties contract?

7. Define the following: (1) Legal tender. (2) Bona fide. (3) Novation. (4) Recoupment. (5) Ultra vires. (6) Non compos mentis. (7) Proxy. (8) Debenture. (9) Agent. (10) Power of attorney.

State the difference between an administrator and an executor.

8. What is a limited partnership under the laws of the State of Illinois?

9. What are the obligations of a bailee for hire?

10. Wherein does a mortgage differ from a trust deed?

Wednesday, December 21, 1910—1.30 P.M. to 4.30 P.M.

AUDITING

Seventy-five credits necessary to pass, out of a possible one hundred credits.

Each complete answer will receive ten credits. Do not repeat questions on examination papers, but write answers only, designating the questions by number. The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers.

1. During the audit you are making of the accounts of a corporation, you become aware of a claim against the company which you think is likely to be enforced, but which the directors do not recognize, and for which they will make no reserve. What would you do in the circumstances?

2. State shortly the duties of an auditor of a corporation.

3. A corporation is established for working a patent of which ten years are unexpired, and for which a sum of money has been paid. How should the company deal with this asset, and what is the duty of the auditor in respect of it?

4. How should an incorporated coal company estimate the value of its colliery in its Balance Sheet from time to time, first as a Freehold, secondly as a Leasehold?

5. Write out a short Audit Certificate dealing with a few of the points which sometimes arise in an audit, and have to be specially dealt with by the auditor in his certificate.

6. In the case of an incorporated company making considerably more profit than usual in one year, owing to extensive purchases on a rising market, would you advise declaring a proportionately larger dividend, or what would be your recommendation? State your reasons.

7. In auditing the books of an importing and domestic wholesale wine and liquor dealer how would you assure yourself of the correctness of the inventory as to the bonded stock?

8. Beyond the mere detailed checking of purchase invoices to the ledger accounts with dealers, can you suggest any steps that might be taken which might be advisable with the view of the prevention of fraud?

9. A corporation invests its Reserves outside its business. On the audit of the accounts explain what steps you would take to verify the full receipt of the investment income and the safe custody of the trust funds.

10. Upon the audit of the partnership accounts of a manufacturing business the following conditions are revealed:

(1) Sales toward the end of the period are unusually large.
(2) A large deposit in bank is made on the closing fiscal date, which amount is credited to the bank two weeks later.
(3) Machinery sold has been credited to merchandise sales.
(4) A loan to the firm has been credited by mutual consent to the capital account of one of the partners.
(5) Depreciation or discount from the value of a certain class of the inventory instead of being thirty per cent as in prior years is shown as ten per cent.

What would you deduce from these facts, and what would you feel called upon to do by way of extended inquiry or report in each of these instances?

Thursday, December 22, 1910—9.30 A.M. to 12.30 P.M.

Practical Accounting

PART I

Seventy-five credits necessary to pass, out of a possible one hundred credits.

Each complete answer will receive ten credits. Do not repeat questions on examination papers, but write answers only, designating the questions by number. The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers.

1. Prepare a Trading and Profit and Loss Account from the following Trial Balance and data for the year, ended December 31, 1909:

The stock of stores and materials at the end of the year, December 31, 1909, was $8,500.00. The rent at the rate of $2,500.00 was paid up to September 30th. Bad debts amounting to $850.00 have to be written off. A provision of $1,250.00 has to be made to meet possible bad debts. Depreciation at the rate of five per cent per annum on the plant at January 1, 1909, has to be written off. The wages are paid up to December 27th; the wages from that date to December 31st amount to $175.00. Interest at five per cent per annum has to be passed on the amount of the partners' capital accounts at January 1, 1909. (No interest on partners' current accounts.) Profits to be divided equally between the partners. The necessary entries for division of profits and interest, etc., to be passed through the partners' current accounts. It is assumed that no further entries are required to be made to complete the accounts.

Johnson & White,

Trial Balance, December 31, 1909

Investments	$2,410.00	
Accounts payable		$19,125.00
Stores and materials, January 1, 1909	2,120.00	
Johnson's capital		29,600.00
White's capital		15,300.00
Purchases	24,225.00	
Johnson's current account	2,310.00	
White's current account	3,910.00	
Accounts receivable	13,265.00	
Wages	27,825.00	
Rent	1,875.00	
Dividends on investments		115.00
Plant, January 1, 1909	44,100.00	
Bills payable		4,975.00
Bank		975.00
Office expenses and salaries	2,100.00	
Installments received on account of work in progress		14,355.00
Taxes	40.00	
Bills receivable	3,670.00	
Cash in office	50.00	
Law and accountancy charges	255.00	
Repairs	330.00	
Work in progress, December 31, 1909	25,905.00	
Bank charges	90.00	
Sales		70,035.00
	$154,480.00	$154,480.00

2. Prepare a Balance Sheet and Partners' Current and Capital Accounts from the above trial balance.

3. Prepare a statement of the affairs of Messrs. Wilson & Company from the following figures:

Cash on hand, $50.00. Debtors good, $2,500.00. Debtors bad, $250.00. Debtors doubtful, $5,000.00, which are estimated to realize $3,750.00. Creditors unsecured, $13,000.00. Creditors partially secured, $6,000.00; estimated value of security, $4,000.00. Creditors fully secured, $9,500.00; estimated value of security, $12,000.00. Landlord, creditor for rent, $1,350.00, of which sum he is a preferred creditor for $1,200.00. Factory manager, creditor for salary, $750.00, of which sum he is a preferred creditor for $250.00. Liabilities on notes discounted, $3,250.00, all of which are expected to be duly met at maturity. Stock of merchandise cost $4,250.00; estimated to realize, $3,750.00. Interest in a lease of business premises estimated to be worth, $900.00. There is a liability in respect of a contract which the debtors cannot complete, owing to the failure, amount unknown, but estimated at $1,500.00. Bills receivable on hand, $375.00; estimated to produce, $100.00.

4. The following statements of account and balance sheets were presented to the members of a club in the two years mentioned. Abstract of receipts and expenditures for the years 1908 and 1909:

			Year ended Dec. 31, '08	Year ended Dec. 31, '09
To balance for preceding year			$4,000.00	$5,840.00
To entrance fees received			4,985.00	5,095.00
To subscriptions			37,870.00	38,155.00
To subscriptions received in advance for 1909 and 1910			420.00	210.00
To sales of provisions, etc.			85,525.00	76,190.00
To receipts for billiards, cards, cigars, etc.			6,110.00	5,360.00
			$138,910.00	$130,850.00
By rents, taxes, etc.			$13,765.00	$14,055.00
By interest			9,385.00	9,995.00
By purchases of provisions, wines, etc.			74,900.00	67,190.00
By billiards, cards, cigars, etc.			2,315.00	2,000.00
By salaries and wages			16,240.00	16,155.00
By fuel, light, repairs, renewals; additions to furniture, etc.			14,465.00	18,625.00
By club debentures paid off			2,000.00	2,000.00
By balances at bank and in hand:	1908	1909		
	$20,675.00	$16,450.00		
Less: Accounts outstanding, included in expenditure above	14,835.00	15,620.00	5,840.00	830.00
			$138,910.00	$130.850.00

BALANCE SHEET

			Year ended Dec. 31, '08	Year ended Dec. 31, '09
Assets:				
Club house, furniture, China, glass, etc.			$224,200.00	$224,200.00
Balance, Jan. 1,	1908	1909		
	$30,000.00	$30,915.00		
Additions to Dec. 31	4,350.00	4,750.00		
	$34,350.00	$35,665.00		
Less: Depreciation	3,435.00	3,550.00	30,915.00	32,115.00
Stock of wines, etc.			5,115.00	4,875.00
Stock of cigars, cards, etc.			275.00	375.00
Cash at bank and in hand			20,675.00	16,450.00
			$281,180.00	$278,015.00

Liabilities:

	Year ended Dec. 31, '08	Year ended Dec. 31, '09
Club debentures	$219,000.00	$217,000.00
Subscriptions received in advance	420.00	210.00
Sundry creditors	14,835.00	15,620.00
Balance in favor of the club	46,925.00	45,185.00
	$281,180.00	$278,015.00

State in what respect, as regards information or otherwise, you would consider the above Statements and Balance Sheets incorrect, and unsatisfactory to the members of the club.

5. Assuming the Assets and Liabilities stated on the above Balance Sheets to be true, and the analysis of the receipts and payments of the year 1909 to be accurate, state the Income and Expenditures of that year in such a way as to correctly show the actual results of the year's operations.

Thursday, December 22, 1910—1.30 P.M. to 4.30 P.M.

PRACTICAL ACCOUNTING

PART II

Seventy-five credits necessary to pass, out of a possible one hundred credits.

Each complete answer will receive ten credits. Do not repeat questions on examination papers, but write answers only, designating the questions by number. The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers.

6. A and B agree to dissolve partnership December 31, 1908. The stated Balance Sheet was as follows:

Assets:		
Merchandise inventory	$57,500.00	
Furniture and fixtures	2,000.00	
Accounts receivable	85,500.00	
Bills receivable (discounted)	14,000.00	
Good will	5,000.00	
		$164,000.00
Liabilities:		
Accounts payable	$50,000.00	
Bank	2,500.00	
Bills payable	11,500.00	
Bills receivable (discounted)	14,000.00	
A's capital account	53,500.00	
B's capital account	17,500.00	
Income account	15,000.00	
		$164,000.00

Profits are divisible, A 4/7, and B 3/7, five per cent being allowed on capital, and no interest charged on drawings, which were upon the basis of $2,500.00, each. A continues the business and assumes all liabilities. B opening up business elsewhere takes one fourth of the stock and agrees

to leave in the business $2,500.00 as guarantee for one year against floating liability for bad debts and discounted merchandise notes, and to receive or pay any balance in cash, any amount received being derived from accounts due the firm.

Prepare A's balance sheet after dissolution expressive of the terms stated.

7. The Energy Manufacturing Company draws on its customer, Slopay & Company, at two months from date, January 1, 1910, for $5,000.00 and three days thereafter discounts the draft with the City National Bank at five per cent per annum, net.

At maturity S. & Co. confess they cannot meet the draft, but pay the E. Mfg. Co. $3,000.00 on account, and give an acceptance for a like period for the balance, upon condition that the E. Mfg. Co. retire the original draft, which is done.

Detail serially the entries by which the E. Mfg. Co. should record these transactions on its books.

8. A testator directed that the income of his estate should be paid to the widow during her lifetime, and in the event of her death the income to be divided equally between his son and two daughters. The widow died on August 1, 1908. The income of the estate for the year 1908 was as follows:

January	1.—Commonwealth Electric, interest	$300.00
February	28.—Mortgage, interest, South Chicago	480.00
March	31.—Mortgage, interest, Evanston	660.00
April	1.—Rent of barn	120.00
May	1.—Bank dividend	510.00
June	2.—Santa Fé, interest	285.00
July	1.—Commonwealth Electric, interest	300.00
August	31.—Mortgage interest, South Chicago	480.00
September	30.—Mortgage interest, Evanston	660.00
October	1.—C. B. & Q. R. R., dividend	120.00
November	1.—Bank dividend and extra	765.00
December	2.—Santa Fé, interest	285.00

Advances to widow during the year, January 31st, $250.00; March 28th, $500.00; July 25th, $1,500.00.

Apportion the income by months and write up the following accounts; considering the dates of payments to and from as the due dates:

Cash account.	Son's account.
Widow's account.	Each daughter's account.

9. In investigating the records and accounts of a business on behalf of a purchaser of a half interest, state concisely to what points you would direct your special attention. (Limit, 150 words.)

10. A client bought a business for $17,500.00, basing his action upon the following balance sheet of December 31, 1909:

Assets:		
Plant	$4,710.00	
Merchandise inventory	7,385.00	
Accounts receivable	12,500.00	
Profit and loss	2,010.00	
		$26,605.00
Liabilities:		
Accounts payable		10,000.00
		$16,605.00

A charter was obtained from the State of Illinois with an authorized capital of $20,000.00, the balance being working capital, $2,500.00 paid in.

Prior to opening up under the new organization the directors determined to write off $1,250.00 from the Accounts Receivable, $210.00 from the plant assets, and $885.00 from the nventory.

At the first semi-annual accounting they showed a loss from trading, aside from a depreciation allowance of $600.00.

Assuming that all assets and liabilities remain as at the start, subject to the depreciation now allowed, draw up a Balance Sheet as of June 30,

COMMENTS

About three years ago—in the April, 1908, number—the editor of this department of the Journal compared the New York, Pennsylvania, and English examination papers, pointing out the contrasts and differences in standard. To the readers of the Journal, who have followed the work in this department, it will be of great interest to notice the various changes that have taken place. In a sense, limited of course, the examination papers are somewhat a gauge of the professional standard prevalent. In a previous number of the Journal, a part of the New York examination papers was given.* We are therefore now in a position to review to advantage the papers of the three different states—New York, Massachusetts, and Illinois.

The Massachusetts paper on Practical Accounting is somewhat on the style of the New York paper in the same subject. It is divided into two parts, three questions being given in each part, and the candidates are expected to answer two out of the three within three hours' time. One session is held in the forenoon from nine to twelve for the first part of the paper, and an afternoon session of three hours for the second part of the paper. Although the Massachusetts paper is not exactly of the same calibre and standard as the New York or Illinois, it must not be overlooked that this is only the second examination and that the board is drawing upon the early papers of the neighboring State Boards of Accountancy. From the trend of the paper, there is no doubt that it will improve in quality with each successive examination.

The Illinois paper, in the same subject, is also divided into two parts with three hours' allowance to each part. Five questions are given at each session, forenoon and afternoon, and the candidates are expected

* Part I., pp. 92-110.

to answer all the questions. On this basis the candidate is allowed an average of thirty-six minutes to read each problem, gather the facts and solve it. If we consider that the heading of the paper reads, "The intelligence indicated by answers will be considered in marking the applicants, as well as the technical accuracy of such answers," we think that it is not fair to the candidates. No practitioner, even of exceptional ability and experience, could give an intelligent and technical accurate answer to any of the problems in thirty-six minutes. The eighth problem in the second part of this paper would require half an hour in order to collect the facts, not to speak of solving the problem. There is no doubt that the paper is of a very high and interesting standard and deserves all commendation, but why should the candidates be required to do impossible tasks? Coming in contact with the various members of the State Boards, we are convinced that they are far from intending to put before the candidates impossibilities, and therefore a little consideration of the time allowance when the papers are made up, would be of great help to the candidates and would establish beyond question the fairness of the board.

With the exception of the first problem in part one, the New York Paper on Practical Accounting is excellent. It is very fair, containing problems which the average practitioner has to meet daily; therefore the aspirant should be familiar with them. If a man has pursued a proper course of study, and not merely "crammed," and if he has a little practical experience, he can solve them, without difficulty, in the time allotted. The first problem mentioned before is rather highly technical, and as the mathematical accuracy in that particular instance is of the utmost importance, requiring verification and proof, it is questionable whether a greater time allowance should not be given to such a problem.

When we review the papers in Theory of Accounts, we find, regarding time allowance, that the criticism that applies to the State Board of Illinois in practical accounting, applies with equal if not greater force, to the State of Massachusetts. There (in Massachusetts) the candidate is allowed four and one half hours in which to answer ten questions in Theory of Accounts, and six questions in Commercial Law.

In the first place it is doubtful whether it is advisable to require a candidate to spend continuously four or four and one half hours at examinations. In New York, for instance, at the academic examinations given by the Regents, the Board of Health insists that an examinee be not permitted to spend more than five hours in the examination room. That we must remember is not compulsory, but rather elective. If an examinee has completed a paper in a given subject before the time allotted, he may, if he chooses continue on another paper. The hour at which he began the second paper is noted, and he must stop when the total number of hours for the two papers is five. In the case of Massachusetts, however, the candidate is actually compelled to spend four and one half hours, unless he can complete the two papers in less time, which, of course, is not true of the majority.

It is also questionable whether the six questions in Commercial Law

are sufficient. This is especially important when most of the states require ten, and on its face, it would indicate that the tendency of the Massachusetts Board is to undervalue the importance of the subject. In the law questions before us, if a man has read something on partnerships and corporations, and has studied a few definitions, that would be all that is required of him to pass the examination. The paper in theory of accounts in the case of this State, shows that the board has also considered general business aside from "mere theory." The first question deals rather with efficiency of business than theory of accounts, but is nevertheless a very important proposition, and if many more like it were given in examination papers, the aspirants would not only be "accountants," but efficient ones as well. The paper in auditing is excellent. It clearly indicates that the board recognizes the responsibility placed on accountants by the recent bill regarding auditing for banks.

The papers on Theory of Accounts, Commercial Law, and Auditing given by the Illinois State Board, are of a general character, and indicate a steady progress in the standard.

In the case of the New York State Board of Accountancy, the board has adopted an interesting procedure in connection with the papers on Theory of Accounts, Commercial Law, and Auditing. Each paper is divided into three respective groups, the candidates being required to answer some questions in each group. The idea of giving a number of questions and asking candidates to select two thirds of them, has its advantages as well as disadvantages. By the method adopted by the New York board at the present, while the candidate still has a choice of questions, he is compelled to know something about affairs in which ordinarily he would not be prepared.

The New York board is to be congratulated on the new syllabus just issued by the Education Department of the University of the State of New York, in the preparation of which it undoubtedly must have greatly assisted. The board gives a complete outline of what will be expected from each candidate regarding the four subjects in which he is to be examined, and if he has prepared himself according to this syllabus, he ought not to have difficulty in passing the examination. An interesting feature of this syllabus is its extensive bibliography. The candidate for examinations has always been groping in the dark as to which books he should refer to and consult in preparing for the examinations. In this respect it is quite a step forward. It is of particular importance to notice that in the bibliography are included books which are not strictly on accounting, but which are of great importance to the practitioner; such as, "Anatomy of a Railroad Report," by Woodlock; "Financing an Enterprise," by Cooper; "Funds and Their Uses," by Cleveland; "History of Modern Banks of Issue," by Conant.

The three papers, as a whole, if compared with the papers of a few years ago, tend to convince even the most pessimistic that the influx to the accounting profession is bound to be a healthy one, benefiting the profession at large and placing credit and dignity upon the Certified Public Accountant.

New Jersey C. P. A. Examinations 1904—1909.

Theory of Accounts.

1. State briefly your view as to
   a. Single Entry System of Keeping Accounts.
   b. Double Entry System of Keeping Accounts.

2. Accounts.
   a. What is an Account?
   b. What is a Real Account?
   c. What is a Representative Account?
   d. What is the purpose of Controlling Accounts?
   e. When *one* Controlling Account only is used, what would you call it?
   f. When *two* or *more* are used, name two.
   g. Cash Account. In what manner does it differ from other Real Accounts?
   h. Bills Receivable and Bills Payable. Of what use are they, and how kept so that they may be intelligible?

Define and state the uses of the following Accounts:
   i. Capital.
   j. Revenue.
   k. Trading (or Merchandise).
   l. Loss and Gain.
   m. Surplus.
   n. Deficiency.

3. Trial Balance.
   a. Describe the same, and its uses.
   b. Do you consider its use necessary?

4. Balance Sheet.
   a. Wherein does it differ from the trial balance?
   b. Is the trial balance essential to the making of the balance sheet, and if so, why? And if not, why not?
   c. Assuming that there is more than one form of balance sheet, name those that you know of, and state wherein they differ from each other.
   d. State on which side the assets should be shown; also which side the liabilities should be shown, and state if the same rule applies to all forms of balance sheets, and if not, why not?

5. Assets.
   a. Define same in general terms.
   b. Name two kinds.
   c. Define the first one that you have named.
   d. Define the second one that you have named.
   e. Bad or doubtful (accounts)—how should they be treated at the close of a fiscal period?

6. Liabilities.
   a. Define same in general terms.
   b. Name two permanent or fixed liabilities.
   c. What is a contingent liability?
   d. Name one.

7. Fixed Charges. Operating Expenses.
   a. Define fixed charges, and name three kinds.
   b. Define operating expenses, and name three kinds.

8. Debit.
   a. Define same in general terms.
   b. Why is the word *To* used in connection therewith, and is its use necessary?

9. Credit.
   a. Define same in general terms.
   b. Why is the word *By* used in connection therewith, and is its use necessary?

10. State your opinion briefly as to the merits or the demerits of
    a. Bound books of account.
    b. Loose leaf books of account.
    c. Special rulings in books of account.
    d. Private ledger.
    e. General ledger.
    f. Card ledgers.
    g. The journal; do you consider its use necessary?

Practical Accounting.

1. A certain concern, consisting of two partners—Mr. A. and Mr. B.—have been doing business for several years, keeping their books by *Single Entry*. At the close of a certain fiscal period—say July 1, 1904—it was found that the business was worth, or that the net investment was, $18,548.03. At this time the owners (Mr. A. and Mr. B.) concluded to offer the business for sale; also to continue the business until such time as a purchaser may be found.

It is not known what the specific interest of each partner is. After failure to find a purchaser who would take over the entire business, Mr. A. sold his entire undivided interest to Mr. C., and Mr. B. sold his entire undivided interest to Mr. D., and it is not known "how much" Mr. A. received from Mr. C., nor is it known "how much" Mr. B. received from Mr. D.

Messrs. C. and D., the purchasers, "came together," and mutually agreed to become co-partners and carry on the business, each on an equal basis, as to ownership, and also as to the sharing of losses or gains.

Messrs. C. and D. "took possession" on August 1, 1904, and the bookkeeper, on being requested to show "how the business stood" on that date, handed Messrs. C. and D. the following, which he (the bookkeeper) called a financial statement:

BOOKKEEPER'S STATEMENT.

Value of Real Estate and Buildings..............		$25,000.00
Value Plant, Machinery, Fixtures, etc.............		5,285.76
Prudential Insurance Company—		
First Mortgage	$10,000.00	
Accrued Interest	125.00	
		10,125.00
Samuel Sloane—		
Second Mortgage	$3,000.00	
Accrued Interest	56.25	
		3,056.25
William Wilson—		
Third Mortgage	$3,000.00	
Accrued Interest	56.25	
		3,056.25
Metal Merchandise, per Inventory................		6,377.75
Wood Merchandise, per Inventory..................		1,916.28
Stable Supplies, per Inventory.....................		10.00
Cash		198.28
Sundry Customers owe to Messrs. A. and B......		7,607.70
Value Horses, Trucks, Harness, etc................		1,475.00
Our Notes Outstanding amount to................		5,752.32
Messrs. A. and B. owe on Open Account to Sundry Creditors		3,615.01
		$73,475.60

Messrs. C. and D. are satisfied as to the items and the amounts in the foregoing "statement," but they desire to have the matter "put in" a clear, concise form, so that a new set of books may be opened and started, *Double Entry*. They wish to have and to know:

First. The assets.

a. Properly classed.

b. Amount of each class (or debtor).

c. Gross amount.

Second. The liabilities.

a. Properly classed.

b. Amount of each class (or creditor).

c. Gross amount.

Third. Investment.

a. Each partner.

b. Total investment.

Fourth. Between July 1st and August 1st had the business been run at a loss or a gain, and how much in either case?

Prepare a financial statement, such as you consider will meet the requirements of Messrs. C. and D. and that will enable the new bookkeeper (whom we will consider is skilled in his profession) to properly open the new books on double entry plans.

Add to your financial statement a proper certificate and sign the same.

JOHN DOE. Number (Here put your own number).

2. Trial Balance.

Messrs. C. & D. at the close of business on August 31, 1904:

L. F.			
1.	Mr. C.		$11,128.96
3.	Mr. D.		11,128.95
5.	Real Estate and Buildings	$25,000.00	
6.	Plant, Machinery, Fixtures, etc	5,285.76	
8.	Horses and Trucks	1,475.00	
10.	Cash	1,855.86	
12.	Metal Merchandise	7,507.62	
20.	Wood Merchandise	3,951.10	
28.	Bills Receivable—Notes	162.86	
30.	Management (Salaries, etc.)	963.50	
34.	Rent, Heat, Light, Power	118.40	
39.	Factory Expense	83.78	
44.	Office Expense	164.09	
48.	Stable Expense	270.03	
52.	Insurance	745.23	
56.	Interest	38.84	
58.	Discounts for Cash Payments	184.31	
62.	Prudential Ins. Co., Mortgagee		10,125.00
63.	Samuel Sloane, Mortgagee		3,056.25
64.	William Wilson, Mortgagee		3,056.25
65.	Bills Payable—Notes		7,045.57
70.	Sales of Metal Goods		3,353.94
76.	Sales of Wood Goods		2,400.29
	Accounts Receivable, Customers	7,276.89	
	Accounts Payable, Creditors		3,788.06
		$55,083.27	$55,083.27

Inventory Shows—

Metal Merchandise on Hand	$6,000.00	
Wood Merchandise on Hand	4,000.00	
Coal on Hand	50.00	
Office Supplies on Hand	25.00	
Stable Supplies on Hand	25.00	
Insurance, Unexpired Premiums	500.00	
Total		$10,600.00

From the foregoing trial balance prepare:

1. Balance sheets.
   a. Working paper form.
   b. Continental or technical or report form.
   c. Show net gain or loss for August, 1904.
   d. Show each partner's share of the loss or gain.
   e. Show each partner's investment.
   f. Show total investment or capital.
2. Loss and gain statement.
3. Financial Statement, after closing books.
4. Recapitulation, showing:
   a. Mr. C.'s investment, before closing books.
   b. Mr. C.'s share of the loss or gain.
   c. Mr. C.'s investment, on September 1, 1904.
   d. Mr. D.'s investment, before closing books.
   e. Mr. D.'s share of the loss or gain.
   f. Mr. D.'s investment, on September 1, 1904.
   g. Net gain or loss for August, 1904.
   h. Amount of capital invested in the business on September 1, 1904.

3. Messrs. C. and D. desire that their ledger shall show all the transactions with their creditors—*i. e.*, purchases and payments with each creditor.

Naturally, the bookkeeper wishes to so arrange his books as to accomplish the desired end with the minimum of labor.

a. What would you recommend? (Use as a basis foregoing trial balance.)
b. What would you name your plan?
c. What general instructions would you give to the bookkeeper to enable him to properly maintain your "plan" after its installation by you?

4. How would you arrange or prepare a special cash book for this same business or concern to reduce labor, but in no way impair efficiency?

a. Illustrate the arrangement of the debit side.
b. Illustrate the arrangement of the credit side.
c. Give general instructions as to "keeping" and as to "closing" the same.

5. Messrs. C. and D., finding the business profitable, and wishing to extend or increase the business, are compelled to procure additional capital. *Three* of their friends—Messrs. E., F. and G.—stand ready to supply the money, but suggest incorporating under the laws of New Jersey, which suggestion is agreed to, and on the following basis:

E., F. and G. agree to organize and incorporate a joint stock company, at their own expense, capital $100,000, and buy the entire business from C. and D.

Capital $100,000, 1,000 shares, par value $100, full paid and non-assessable.

C. to have for his interest in the business............150 shares. $15,000
D. to have for his interest in the business............150 shares. 15,000
E. to purchase for cash at par......................150 shares. 15,000
F. to purchase for cash at par......................150 shares. 15,000
G. to purchase for cash at par......................150 shares. 15,000
All agree there shall be treasury stock...............250 shares. 25,000
Full paid and non-assessable, which at any time may be sold to procure additional working capital.

As soon as the company begins business (the incorporators and Messrs. C. and D. having so agreed previously) intend to and do pay on September 1, 1904, the mortgages, the mortgagees each for himself having agreed to the arrangement.

The cost of incorporating the company amounted to $500.00.

All preliminary arrangements were made prior to, and the company came into existence on, September 1, 1904. The company immediately paid off the mortgages, opened a new set of books, using the same values as per C. & D.'s financial statement of September 1, 1904.

a. Prepare a financial statement which will show the condition of the company before "starting in to do business," but taking into account the transaction of payment of mortgages.
b. How was the full capital stock made "full paid and non-assessable"?
c. In what manner is the $25,000 converted into treasury stock?
d. Why has good will account been opened?
e. Prepare a list of stockholders, showing holdings of each.

6. Statements.
a. Name four kinds.
b. Briefly define the first one that you have named.
c. Briefly define the second one that you have named.
d. Briefly define the third one that you have named.
e. Briefly define the fourth one that you have named.

7. Ledger.

You wish to so keep your accounts that at any given time you may readily ascertain the aggregate balances due from your customers and the aggregate balances due to your creditors, without taking the time to list the same (customers and creditors), and at the same time you wish to maintain your ledger in perfect balance.

a. How would you arrange your ledger or ledgers?
b. How would you name the ledger or ledgers?
c. How would you maintain the balance of the ledgers or make it possible to balance or prove one ledger independent of the other ledgers?

8. Analysis of a Ledger.
   a. Give two reasons why the making of an anlysis of a ledger becomes necessary.
   b. State briefly how you would proceed to make an analysis of a ledger.

9. Banking.
   a. You have received and deposited a check in your bank. Briefly describe its course through your bank and to its "home bank," and thence to the drawer or maker of the check. Assume the check to be drawn on The Chemical National Bank of New York, but sent by your bank to the American Exchange National Bank, the American Exchange being the New York correspondent of your bank.
   b. What is the purpose of the discount tickler?
   c. What is the purpose of the collection tickler?

10. Commercial Arithmetic.
   a. Define equation or averaging of accounts.
   b. What is the equated time for the payment of the balance of the following account (30 days to the month and 6% per annum)?

Dr.		HENRY M. DOREMUS.		*Cr.*
1904.				
Mar. 16.	Mdse. 4 months..	$444.57	1904.	
Mar. 30.	Mdse. 60 days...	376.82	July 1. Cash.............	$400.00
Apr. 20.	Mdse. 30 days...	712.19	July 20. Cash.............	375.00
May 17.	Mdse. 4 months..	628.75	Aug. 16. Cash.............	700.00
May 28.	Mdse. 4 months..	419.31	Aug. 30. Cash.............	600.00

   c. Henry M. Doremus desires to settle the above account on September 13, 1904. What amount of money shall he pay?

11. Building and Loan Companies.
   a. State briefly the primary objects of building and loan companies.
   b. What protection does the State afford to such companies?
   c. To whom are the funds of building and loan companies loaned?
   d. Is it customary and necessary to keep an independent ledger account with each member, showing his payments of dues, etc., and dividends, etc.? And if not, why not?

Commercial Law.

1. Contracts.
   a. Name the primary elements of a contract.
   b. What is a valuable consideration?
   c. How many parties are necessary to the making of a contract?

2. Partnership.
   a. Who may become partners?
   b. What is a partnership, and how formed?
   c. Profit and Loss. In case of no specific agreement as to division, how would the same be divided as between partners?

3. Corporations.
   a. What is a corporation?
   b. Name the parties to a corporation.
   c. What is a franchise?
   d. State briefly how you would proceed to organize a corporation in the State of New Jersey.

4. Interest and Discount.
   a. What is interest?
   b. What is discount?

5. Insurance.
   Define same in general terms.

6. Distribution of Estates of Persons Deceased.
   a. What is a will?
   b. How many kinds of wills are there?
   c. Name two kinds.
   d. What constitutes the probate of a will?
   e. Where there is no will, how is the estate of the deceased cared for and distributed?

7. Legal Terms. Define the following:
   a. Acceptance.
   b. Accommodation Paper.
   c. Adjudication.
   d. Alteration.
   e. Attorney in Fact.
   f. Blank Endorsement.
   g. Escrow.
   h. Ultra Vires.

8. How can interest be calculated on a sealed note in the following words?

I promise to pay to A. B. or his assignee one thousand dollars, for value received, and to pay interest annually.

The note is not paid for five years. Does the interest, which is to be paid annually, become principal and bear interest?

9. What is a Receiver?—*i. e.*, define the same.

10. **Miscellaneous.**
   - a. What makes a note or draft negotiable?
   - b. Is it necessary under all circumstances to protest a note or draft if not paid when due?
   - c. What is gained, if there is any gain, by protesting notes, etc.?
   - d. Can a building and loan company (of N. J.) borrow money? And if so, how?
   - e. What is the legal rate of interest in New Jersey?

Auditing.

1. The general business public frequently make no distinction as between a bookkeeper and an accountant. What is the distinction? Define in your own words:
   - a. A bookkeeper.
   - b. An accountant.
   - c. An auditor.
   - d. A practicing public accountant and auditor.

2. A business man sends for you and talks to you thus: "I want my books and accounts examined. I am informed and believe them to be all right, but I want to be assured of it beyond doubt. I also want to know the condition of my business, as the books show the same, at this date. I also want to know if the business has made money or lost money, and in either case what amount. What will the "job" cost me, and how long will it take to find out?"
   - a. How would you deal with such a case?
   - b. What would you require to have furnished to you so that you could ascertain the facts wanted?

3. Good will.
   - a. What is good will?
   - b. What part does it play in corporations?

4. Partnership Settlement.

Three gentlemen have been associated as partners in a certain manufacturing enterprise. At the close of the year they desire an honest and fair adjustment of the result and division of the resulting gains. They have agreed to abide by your decision. They furnish you the following facts:

   1. Anderson, Brown & Cristy are equal partners in a manufacturing enterprise.
   2. Each partner to receive 6% interest on his average investment.
   3. Christy, as superintendent, to receive yearly salary of $3,000.

4. Brown keeps a general store, at which the operatives deal, and Brown has agreed to allow Anderson and Cristy 5% on his sales to the operatives.
5. Brown's sales to the operatives amounted to $1,575.
6. Anderson to receive for his services as selling agent 10% on the net profits as existing before his percentage is taken.
7. Anderson's average investment for the year is $9,750.
8. Brown's average investment for the year is $5,750.
9. Cristy's average investment for the year is $5,000.
10. Leaving out the interest, salary and Anderson's and Cristy's percentages, the net gain for the year is $15,000.

What share of the $15,000 is each partner entitled to?

Prepare a sheet that will show under separate heads:

Accounts, with items, of Anderson, Brown, Cristy. Distribution of the gain.

5. a. How would you "treat and proceed" in an examination of accounts receivable as to classing same as good, doubtful, and bad?

b. What books and papers would you demand, and how would you "treat" the same, were you called in to make a first audit?

c. How would you proceed if called in to make a second or later audit of the same books, etc.?

6. How would you "treat" such accounts as the following, if closing the books at a certain period, with a view to ascertaining the loss or gain?

a. Insurance premiums paid in advance.
b. Real estate, as to taxes, assessments, etc.
c. Mortgages, notes and other paper as to interest.

7. What is your idea of the proper and a just charge or compensation, just as

a. To the employer and the employee, for your services as a certified public accountant?
b. The services of a first assistant?
c. Other assistants?

8. State briefly how you would proceed if called in to audit and render a financial statement of

a. A national or State bank of deposit and discount.
b. A savings bank.
c. A building and loan association.
d. An insurance company.
e. A mercantile or manufacturing business (partnership).
f. A corporation.

9. a. As a certified public accountant and auditor, what would be your relation with your client?

b. To what extent do you consider that you should hold yourself responsible for your work as an accountant and auditor?

10. a. Write such a certificate as you would consider proper where all the facts and figures were at your command and where you had in no way been hampered in your work.

b. A certificate, where certain facts had been furnished to you with a statement that the certain facts were satisfactory to all parties concerned, and the balance of facts or information you had "gleaned" for yourself.

c. Write up a letter of introduction to be signed by your client of New York, who has charge of a large mercantile establishment. One of his clerks, a man of excellent character and ability, is about to leave him for California. He desires a general letter of introduction. Write a letter which shall be specific as to his qualifications, and general in its appeal.

The State Board of Accountancy of Washington.

Examination Questions.

August 6, 7 and 8, 1908.

EXTRACT FROM RULES OF THE BOARD:—

RULE 10—"The Board will grant certificates only to those applicants . . . who shall correctly answer at least 75 per cent. of all the questions on each and every subject of examination.'

Theory of Accounts.

Thursday, August 6—9 A. M. to 12.30 P. M.

Answer Six Questions.

1. (a) Define Gross Profit.

(b) Define Net Profit.

(c) Without using figures, draft a profit and loss account in which gross profits are distinguished from net profits.

2. What general principles should be observed in differentiating between capital and revenue expenditure?

3. A corporation having acquired a manufacturing plant, discards, shortly after its acquisition, a large portion of the machinery and replaces it by machinery of a more modern type. (a) What do you consider is the correct method of dealing on the books with the book value of the discarded machinery? (b) Do you consider that it would be proper for the corporation to pay dividends until the book value of the discarded machinery had been written off out of profits? Give full reasons for your answers.

4. (a) Arrange a plan for keeping a private ledger with which the general ledger will agree and yet in no way reveal the contents of the private ledger.

(b) What matters are usually recorded in the private ledger?

5. Describe the nature of the following accounts:

Consignment.
Trading.
Suspense.
Construction.
Subscription.

6. (a) What should be done regarding the books on the admission of a new partner into a firm?

(b) What entry or entries should be made (1) when cash is invested in the business by an incoming partner? (2) When a specified amount is paid by an incoming partner to the old members personally for a share in the business?

7. What should be the procedure in ascertaining the value of stock on hand at the time of a fire, the financial books being intact and showing an inventory taken four months before the fire? Without using figures, draft a statement in the form you would consider most suitable for setting forth your findings.

8. After appraisement, a manufacturing corporation increases the book value of its real estate to the appraised figure, carrying the amount of the appreciation to undivided profits account. Shortly afterwards the corporation declares a dividend, to pay which a part of the real estate appreciation is required. Do you consider that the corporation is justified in treating appreciation of real estate as an earned profit (assuming the real estate to be used for the purpose of the business) and in paying that appreciation out as dividend? State fully reasons for your answer.

Practical Accounting—Part I.

Thursday, August 6—2 P. M. to 5.30 P. M.

Answer Two Questions.

Notice to Candidates:

The board has decided, in connection with the practical accounting papers set at the present examination, that correct answers to 66 2-3 per cent (or two out of three) of the questions asked will constitute a pass.

1. A. & B. were partners trading under the name of A., B. & Co. June 30, 1908, the following balances appear on their ledger:

A., Capital Account	$70,000
B., Capital Account	50,000
Real Estate	22,000
Buildings	20,000
Machinery and Tools	44,000
Furniture and Fixtures	2,000
Accounts Receivable	50,000
Cash	7,000
Materials and Merchandise	53,000
Accounts Payable	35,000
Bills Payable	48,000
Bills Receivable	5,000

On June 30, 1908, the business is incorporated as the X. Company, on the following plan:

1. Capital stock $150,000.

2. X. Company takes over entire assets and liabilities of A., B. & Co. at the book figures as above, except (a) real estate of the book value of $5,000, which is retained by A., B. & Co.; (b) the accounts receivable, which are taken over at $48,000, and (c) the capital accounts of the partners.

3. X. Company pay A., B. & Co. $30,000 for the good will of the business.

4. Payments to A., B. & Co. are made as follows: viz., $50,000 in 1st mortgage bonds, and the balance in capital stock of the X. Company.

5. After paying off A., B. & Co. the remainder of the capital stock is sold for cash to sundry persons.

The real estate which is retained by A., B. & Co. is bought from A., B. & Co. by A. for $7,000 and is to be charged to A.'s capital account.

After the completion of the foregoing described transactions A. & B. dissolve partnership.

You are required:

(a) To prepare closing entries for the books of A., B. & Co.

(b) A statement setting forth the partners' accounts down to their final closing, beginning with the balances shown by the books on June 30, 1908.

(c) Opening entries for the X Company.

2. Smith, Brown and Jones agree to join in partnership for the purpose of working a patent. The patent is the property of Jones.

Smith puts into the business in cash $10,000, and Brown $15,000. Jones has no cash capital, but his patent and machinery are taken in as the equivalent of $7,500, and $2,500, respectively, and are credited to his capital account accordingly. The life of the machinery is estimated at ten years, and the patent has fifteen years to run. Half of the annual depreciation on the patent and machinery is to be charged against Jones' drawing account. Jones is to draw $100 per month as manager of the business, and is to have one-third of the net profits (subject to depreciation as above), the remainder of the net profits to go two-fifths to Smith and three-fifths to Brown.

The profits (before charging management salary and depreciation on machinery and patents), and the drawings, are as follows:

	1906	1907	1908
Profits	$7,500	$10,000	$20,000
Drawings by Smith	1,000	750	1,000
Drawings by Brown	1,500	1,000	1,250
Drawings by Jones (in excess of salary and before charging him with depreciation)	500	400	450

You are required to

(a) Prepare final profit for each year, showing distribution of net profits to the partners.

(b) Prepare capital accounts of the partners for each year.

(c) Prepare patent and machinery accounts for each year.

NOTE.—In answering this question it is not necessary to show journal entries. Interest on capital is not to be considered.

3. The firm of C. & D. carry on business as dry goods merchants at Seattle and Tacoma, and decide to dissolve partnership on Dec. 31, 1907. At that date their balance sheet was as follows:

ASSETS.

Cash		$100.00	
Merchandise—			
At Seattle	$12,000		
At Tacoma	7,250		
		19,250.00	
Accounts Receivable		17,000.00	
Furniture and Fixtures—			
At Seattle	$1,700		
At Tacoma	1,100		
		2,800.00	
Good Will		3,000.00	
			$42,150.00

LIABILITIES.

Overdraft	$1,050.00	
Accounts Payable	11,100.00	
C.'s Capital	20,000.00	
D.'s Capital	10,000.00	
		$42,150.00

The partners divide in proportion to their respective capital investment, and agree that at the date of dissolution C. shall take over the merchandise and furniture at Seattle, and D. the merchandise and furniture at Tacoma, at the values shown in the above balance sheet. The accounts receivable realize $16,000, and all the liabilities are paid less $300 discount on accounts payable.

The realization is completed by June 30, 1908, and you are required to continue all the accounts appearing in the balance sheet up to and including that date, and to show the final closing of the accounts (including those of the partners).

Practical Accounting—Part II.

Friday, August 7—9 A. M. to 12.30. P. M.

Answer Two Questions.

Notice to Candidates:

The board has decided, in connection with the practical accounting papers set at the present examination, that correct answers to 66 2-3 per cent. (or two out of three) of the questions will constitute a pass.

4. The following balance sheets of the firm of X. & Y. are submitted to you for investigation and criticism by a client who has been invited to purchase an interest in the business:

ASSETS.

	Dec. 31, 1906	Dec. 31, 1907
Furniture and Fixtures	$7,000	$8,000
Accounts Receivable	30,000	50,000
Merchandise	25,000	58,000
Cash	6,000	8,000
Real Estate	15,000	18,000
Buildings	25,000	25,000
Bills Receivable	5,000	10,000
Total Assets	$113,000	$177,000

LIABILITIES.

Capital	$53,000	$67,000
Accounts Payable	35,000	65,000
Real Estate Mortgage	5,000	5,000
Bills Payable	20,000	40,000
Total Liabilities	$113,000	$177,000

As a result of your enquiries you ascertain the following facts:

1. The business has been established under the present ownership four years.

2. The sales and profits as shown by the books have been:

Year ending Dec. 31	Sales	Gross Profits	Net Profits
1904	$150,000	$22,000	$10,000
1905	230,000	29,000	15,000
1906	270,000	32,000	17,000
1907	340,000	37,000	22,000

3. The book value of real estate was written up in 1907 $3,000, which was treated as profit for that year.

4. Of the accounts receivable Dec. 31, 1907, $3,000 were bad. Of this amount, $2,000 related to 1907 and $1,000 to 1906 business.

5. There was omitted from the Dec. 31, 1907, inventory $2,000 of merchandise which had been paid for, and there was included in the same inventory $1,000 which had not yet been entered on the books.

You are required to make in the profit and balance sheet figures as above stated such adjustments as you may consider necessary, and to arrange the adjusted balance sheets in the form best calculated, in your opinion, to give a clear view of the condition of the business at the close of each of the two years.

You are further required to make a brief report to your client commenting on or calling attention to any points you may think it desirable to bring especially before his notice.

5. The Republican Asphalt Contracting Co. is forced into liquidation; and the Receiver, when taking possession, finds the books of account to show:

LIABILITIES.

Bills Payable		$18,000	
Creditors' open accounts		75,500	
Mortgage on Real Estate and Improvements		17,500	
Mortgage on Contracting Equipment		7,000	
Capital Stock Subscribed	$100,000		
Less not paid up	2,500	97,500	
			$215,500

ASSETS.

Cash in Bank and Office	$700	
Bills Receivable	4,300	
Debtors' Accounts	8,200	
Bonds and Warrants	23,000	
Real Estate and Improvements	35,000	
Manufacturing Plant	24,000	
Contracting Equipment	14,000	
Uncomplete Contracts (Cost)	41,000	
Inventory of Materials and Supplies	3,500	
		$153,700

The bondsmen on the unfinished contract estimate that an expenditure of $25,000 will complete the uncompleted contract and realize the contract price of $60,000, and their offer of $2,750 for the inventory of material and supplies as part of said expenditure, is accepted by the receiver. The company owes for personal taxes and adjustment of Employer's Liability premiums $175 and $100 respectively, and unpaid labor accounts amounting to $1,700, which amounts do not show on the books of account.

The bills receivable amounting to $4,300 are pledged as collateral for $3,500 due creditors, and $20,000 of the bonds and warrants have been given as security for $33,000 due creditors. $1,000 of the bills receivable is subsequently dishonored.

The receiver finds that $1,100 of the debtor's accounts is collectible. The sale of real estate and improvements (book value $35,000) realizes $32,500—manufacturing plant 40 per cent. of the book value, contracting equipment 35 per cent. of book value.

Prepare a statement of affairs and deficiency account.

6. Without using figures, devise forms of periodical financial statements (to include manufacturing account, profit and loss account, and balance sheet) for any manufacturing business with which you are familiar.

Auditing.

Friday, August 7—2 to 5.30 P. M.

Answer Six Questions.

1. What are the responsibilities of an auditor and what should be his qualifications?

2. (a) Give some reasons why a firm or corporation should have periodical audits.

(b) What advantage has a firm or corporation in employing a certified public accountant for the work?

(c) How far should an auditor enquire into the work of his predecessor?

3. Draw up a form of certificate you would give where you found the accounts properly kept. Also where accounts are incorrect.

4. (a) Explain how you would proceed in auditing the affairs of a corporation.

(b) In an audit where an exhaustive examination of the books is not practicable, what are the particular points to which the attention of an auditor should be directed?

5. State briefly your duties as an auditor in reference to the following matters:

(a) Machinery, the value of which has not been regularly depreciated.

(b) Loans from bankers.

(c) Doubtful debts.

(d) Good will.

6. How would you, as auditor of an incorporated company, satisfy yourself of the existence of shares or bonds given as security for loans to the company?

7. What important items would you look for in auditing accounts of a county, a city and a school district?

8. A firm of export merchants desire a thorough investigation of the past year's transactions, having reason to suspect fraud. State concisely upon what lines you would proceed to satisfy yourself that:

(a) Goods had been taken out of the store on bond in the way shown by the books.

(b) They had been shipped to account of proper consignee.

(c) That no goods had been removed without being charged.

(d) That no fictitious entries had been made in the books.

Commercial Law.

Saturday, August 8—9 A. M. to 12.30 P. M.

Answer Six Questions.

1. (a) What is an executor? An administrator?

(b) What are the rights of creditors as against the estate of a deceased person?

(c) Define intestate?

2. What do you understand by bankruptcy proceedings, and what effect have they on claims of creditors?

3. What is a garnishment? Who if anybody are exempt therefrom?

4. What do you understand by exemption of a debtor?

5. (a) Define a bill of exchange.

(b) What is the difference between inland bill of exchange and foreign bill of exchange?

(c) Define acceptance as used with reference to a bill of exchange.

6. (a) Define a negotiable promissory note.

(b) What is the liability of a general endorser on a promissory note?

7. (a) By whom must all contracts, deeds, mortgages, leases and other instruments binding a corporation be signed? And whence do the signers derive their authority?

(b) Explain the manner of issuing and of transferring the capital stock of the corporation, and state the principal rights acquired by stockholders.

(c) What is the limit of a stockholder's liability?

8. State the essential feature of a partnership. Must each partner have an interest in both profits and losses?

The State Board of Accountancy of New York.

Practical Accounting—Part I.

Tuesday, February 1, 1910—1.15 to 4.15 P. M., only.

Answer two questions but no more. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (✓) the number of each one of the questions you have answered. Each complete answer will receive 25 credits. Papers entitled to 75 or more credits will be accepted.

1. A fire in the office of a firm of traders partly destroyed the books of account that had been fully posted in anticipation of proving their correctness. The following ledger accounts were found to be legible:

Purchases net	$23,000
Cash discounts lost	320
Cash discounts gained	1,150
Sales net	18,000
Bills receivable	11,000
Upon inquiry the bank balance was ascertained to be	43,000
Bills receivable had been discounted at the bank, amounting to	15,000
An inspection of the checks paid by the bank showed amount paid creditors, including $20,000 notes payable	33,000

A balance sheet prepared at the last closing of the books and containing the following items was produced by one of the partners:

Cash	$20,000
Accounts receivable	42,000
Loans receivable	8,000
Real estate	30,000
Notes receivable	14,000
Accounts payable	10,000
Notes payable	20,000
Mortgages payable	12,000
Inventory	12,000
Capital	84,000

The firm stated that the real estate, loans receivable and mortgages payable remained as shown in the balance sheet.

An inventory of goods in storage amounted to $15,000.

With this information open a new set of books showing the position of the firm at the time of the fire.

2. The directors of a manufacturing company, before the closing and auditing of the books for the half year ending December 31, declared out of the net earnings of the company, a dividend for the half year, of 4% on

the preferred stock of $100,000 and 3% on the common stock of $100,000. There has been brought forward from the last half year, an undivided balance of profit of $4,000 and after the audit of the books the trial balance is found to be as follows:

TRIAL BALANCE DECEMBER 31.

Real estate and building..	$32,500	Preferred stock...........	$100,000
Plant and machinery.....	40,000	Common Stock	100,000
Patents and good will....	80,000	Sales	219,175
Inventory July 1.........	29,000	Notes payable............	26,000
Purchases	82,500	Account payable..........	14,000
Labor	88,000		
Coal	6,000		
Salaries general..........	11,000		
Salaries management.....	5,000		
Insurance	875		
Allowances	6,250		
Freight	1,500		
Discount and interest.....	750		
Cash in bank.............	8,000		
Investments	15,500		
Miscellaneous expense....	4,300		
Bank debts...............	42,000		
Pfd. stock in treasury....	5,000		
Repairs	1,000		
	$459,175		$459,175

Stock on hand $26,500. From the above prepare profit and loss and income statement and balance sheet, giving effect in accounts to depreciation at the rate of 7½% a year, on plant and machinery, and making an allowance of 5% on the book debts to provide for bad debts; also create a liability in the balance sheet for dividend as stated.

3. A. B., a commission merchant, doing business on 5% basis, hands you the following abstract of his ledger, showing his transactions for the year; furnish A. B.'s capital account, showing his original investment, a balance sheet and a detailed cash account.

Sales	$22,500	$30,000
Freight	1,050	700
Claims and allowances on settled accounts only........	300	750
Expense	450	
Customers' accounts.................................	30,000	22,500
Creditors' accounts..................................	18,975	19,925
Cash	29,500	20,475
Discounts lost	200	

TRIAL BALANCE

Sales	$22,500	$30,000
Freight	1,050	700
Claims and allowances	300	750
Expense	450	
Customers' accounts	30,000	22,500
Creditors' accounts	18,975	19,925
Cash	29,500	20,475
Discounts lost	200	
Commission account, 5% on $22,500	....	1,125
		$95,475
Capital	....	7,500
	$102,975	$102,975

ACCOUNT SALES RENDERED.

Sales	....	$22,500
Charges:		
Freight	$700	
Claims and allowances	750	
Commission, 5%	1,125	2,575
Net proceeds credited to shipper's account		$19,925

Practical Accounting—Part II.

Wednesday, February 2, 1910—9.15 A. M. to 12.15 P. M., only.

Answer two questions but no more. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (✓) the number of each one of the questions you have answered. Each complete answer will receive 25 credits. Papers entitled to 75 or more credits will be accepted.

4. Broad, Beaver & Co., Cotton Oil Brokers (members of P. E. C. Ass'n), trade in cotton oil options for their own account.

The following transactions appear on their books for to-day's trading:

PURCHASES FROM CLEARING HOUSE BROKERS.

						Per 100 lb
Carpenter, Bagot & Co.	400	bbl.,	January	delivery,	price	$7.02
Morgan, Ryan & Co.	600	"	March	"	"	7.21
do	500	"	June	"	"	7.20
William Commission Co.	500	"	July	"	"	6.90
"	100	"	"	"	"	6.92

SOLD TO CLEARING HOUSE BROKERS.

Carpenter, Bagot & Co.........	400 bbl.,	January delivery,	price		$7.03
Morgan, Ryan & Co...........	500 "	March	"	"	7.22
do	700 "	June	"	"	7.19
William Commission Co........	100 "	July	"	"	6.93

CLEARING HOUSE CLOSING PRICES.

January	$7.02
March	7.22
June	7.20
July	6.93

NOTE—Each barrel is considered as containing 400 lb of oil.

Show transaction in all the books and a profit and loss account, taking the inventory at closing prices.

5. The output of the A. B. C. Coal Company for the year ending December 31, 1899, was 1,567,833 tons and the trial balance of that date was as follows:

Plant, machinery, etc.	$5,000,000	Capital stock.........	$5,000,000
Construction (in process)	85,790.50	Sales	3,857,642.76
Bills receivable.......	63,000	Accounts payable.....	89,451.26
Accounts receivable...	21,650.29		
Cash	98,752.31		
Materials (10% inventory)	145,853.20		
Coal on hand, Jan. 1, 1899	12,750.36		
Wages	1,973,376.89		
Supplies (10% inventory)	389,402.20		
Injuries to persons....	10,000		
Salaries	45,750		
Insurance	20,482		
Taxes	26,597.40		
Office expenses........	29,872.50		
Legal expenses.......	36,731.09		
Dividends	150,000		
Rentals and royalties.	262,530.20		
Freight outward......	361,951.17		
Horse and wagon hire	109,532.10		
Allowances	94,321.60		
Miscellaneous	8,750.21		
	$8,947,094.02		$8,947,094.02

Coal on hand, per inventory, $15,862.70.

From the foregoing prepare a balance sheet, and income and profit and loss account, the latter to show gross earning and net earnings.

6. The Virginia Coal Co. was originated on January 1, 1906, began operations about January 7, 1906, and kept an ordinary set of books (by double entry) but did not close their accounts at the end of any fiscal year.

After an examination and verification of all accounts stated in the trial balance they are accepted as correct, except that termed "Sinking Fund Payments" ($22,500).

The mortgage securing bonds to the amount of $200,000 contains a sinking fund clause providing that the company shall deposit semi-annually with the Sinking Fund Trustee 5c per ton on all coal mined; such payments shall be made to trustee during January and July of each year for the preceding six months' period. Money so deposited is to be applied, as soon as practicable, to purchase bonds at not exceeding 115 and accrued interest; compensation and expenses of trustee are also to be paid from the Sinking Fund. Bonds, when redeemed, cannot be canceled but are to be held by trustee, who shall collect the semi-annual interest thereon and apply to the same purposes as the 5c per ton payments.

Bonds are dated January 1, 1906, run for 20 years and bear interest at 6% per annum, payable January 1 and July 1 of each year.

Payments to Sinking Fund Trustees (the General Trust Co.) have been as follows:

July 27/06.	Payment for 6 mo. ended 6/30/06, 5c per ton on 120,000 tons	$6,000
Jan. 24/07.	Payment for 6 mo. ended 12/31/06, 5c per ton on 150,000 tons	7,500
July 28/07.	Payment for 6 mo. ended 6/30/07, 5c per ton on 180,000 tons	9,000
		$22,500

On January 30, 1908, the company paid to the General Trust Co. (S. F. Trustee) $5,500 for Sinking Fund payment for the 6 mo. ended Dec. 31, 1907, being 5c per ton on 110,000 tons.

The General Trust Co. submitted statement of receipts and disbursements for account of the Sinking Fund to date (January 31, 1908) as follows:

Cash Received to Dec. 31/07.

July 27/06.	S. F. deposit for 6 mo. ended June 30, 1906, 120,000 tons at 5c	$6,000
Jan. 5/07.	Jan. /07 coupons on 5 bonds	150

Jan. 24/07.	S. F. deposit for 6 mo. ended Dec. 31, 1907, 150,000 tons at 5c			7,500
July 3/07.	July /07 coupons on 12 bonds			360
July 28/07.	S. F. deposit for 6 mo. ended June 30/07, 180,000 tons at 5c			9,000
				$23,010

CASH DISBURSEMENTS TO DEC. 31/07.

Aug. 16/06.	Bonds redeemed—5,000 at 110			$5,500
	Commission at ¼%			12.50
	Accrued interest			37.50
				$5,550
Feb. 15/07.	Bonds redeemed:			
	4,000 at 108	$4,320		
	2,000 at 110	2,200		
	1,000 at 112	1,150		
			$7,640	
	Commission		17.50	
	Accrued interest		52.50	
				$7,710
Aug. 12/07.	Bonds redeemed:			
	9,000 at 90	$8,100		
	1,000 at par	1,000		
			$9,100	
	Commission		250	
	Accrued interest		70	
				9,420
Dec. 31/07.	Compensation of trustee		$100	
	Advertising		50	
				150
				$22,830

Cash balance in hands of trustees Dec. 31/07		$180
Received in January, 1908, viz.:		
S. F. deposit for 6 mo. ended Dec. 31/07, 110,000 tons at 5c	5,500	
Jan. /08. Coupons on 22 bonds in S. F	660	
Interest allowed on balance to 12/31/08	100	
		6,260
		$6,440

Prepare entries to state properly on the books of the Virginia Coal Co. all Sinking Fund transactions.

Auditing.

Wednesday, February 2, 1910—1.15 to 4.15 P. M., only.

Answer 10 *questions but no more. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (✓) the number of each one of the questions you have answered. Each complete answer will receive* 10 *credits. Papers entitled to 75 or more credits will be accepted.*

1. An insurance company buys $50,000 7% 10 year bonds at 116 for investment. The bonds will mature at the expiration of 5 years. How should this purchase be entered in the balance sheet? What should be done with the premium?

2. If in the course of an audit it appeared that capital expenditures had been charged against profit and loss account or items of expense charged against improvement account, what should the auditor do in respect to such charges?

3. What entry should be made in the books of a company of goods sent out on consignment? When goods have been sold and the consignee sends in his account sales, what entries should be made?

4. A company has caused a revaluation to be made of its plant, machinery and buildings, and the new values are found to be greater than the book values. How would you treat such excess in (a) the balance sheet, (b) the profit and loss account?

5. In auditing the books of a corporation the president's salary account was found to have been credited with a bonus of $5,000 for "extra services." Under what conditions would you pass this entry?

6. An annual audit of the books of a copartnership whose fiscal year closed with the calendar year, was begun on January 26, 1909. How would you proceed to prove statement of cash as per their trial balance?

7. How should an auditor ascertain if the following assets appearing in balance sheet, have been taken at a fair value: (a) merchandise, (b) machinery, (c) real estate?

8. What account should be charged with discount on bonds sold for construction and the expense of disposing of such bonds? Give reasons.

9. Is it the duty of an auditor of a bank actually to inspect the securities representing the bank's investments? Why?

10. An auditor who is employed to close the accounts of a firm and prepare a balance sheet, finds that the current work is behind and that no trial balance has been effected for over a year. How should he proceed?

11. Would the auditor of a firm or corporation be warranted in revising the form and wording of a balance sheet before attaching his certificate? Why?

12. Is it necessary to verify the stock ledger of a corporation? Why?

13. The preferred stock of a corporation is entitled to cumulative dividends of 7% a year. The company has paid dividends on this stock at the rate of 5% a year for 10 years. How should the arrears of dividends appear on the balance sheet?

14. Suggest a system for keeping a petty cash book and petty cash vouchers. Give forms.

15. Are there in your opinion any reasons in favor of continuous auditing? If so, give such reasons.

Theory of Accounts.

Tuesday, February 1, 1910—9.15 A. M. to 12.15 P. M. only.

Answer 10 *questions but no more. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (✓) the number of each one of the questions you have answered. Each complete answer will receive 10 credits. Papers entitled to 75 or more credits will be accepted.*

1. Define and differentiate the following kinds of statements: (a) trail balance, (b) balance sheet, (c) statement of assets and liabilities, (d) statement of affairs.

2. Explain the purpose and the manner of keeping a private ledger of a firm or corporation.

3. A. has exhausted his credit with B. He needs further accommodation to the extent of $2,500, to obtain which he gives B. a three months draft on C. for $2,500. This is $1,000 more than C. owes A. To adjust this difference C. draws at four months on A. for $1,000. Assuming that the drafts have been accepted by the respective parties, state what entries his books should show.

4. Mention the methods of bookkeeping in general use. What books are ordinarily kept in each case? How is the profit or loss ascertained by the different systems?

5. Explain the difference between a trading account and a profit and loss account.

6. Devise a system of accounts for an executor. What accounts must he necessarily keep?

7. Name the principal books of account of a mercantile concern with which you are acquainted and describe briefly the use of each.

8. A merchant draws a draft of $1,000 at four months on a customer who owes him an open account and the draft is accepted on February 2, 1909. On March 13, 1909, he discounts the draft at a bank at 6% per annum. What entries should be made on the merchant's books to record the transactions properly?

9. Show the form of a purchase ledger for a mercantile concern and state whether you would recommend the use of a bound or loose leaf book, giving reason.

10. What is a controlling account? Give an example.

11. How would you deal with items accrued and due (such as rent, commission and salaries) when closing the accounts of a business at the end of a fiscal period?

12. A village makes the following appropriations for the year 1904 and a tax is levied therefor:

Bond redemption	$2,000
Bond interest	800
Salaries	2,700
Contingent expenses	500
Police	1,600
Poor	750
Care of streets	1,200
Lighting	950
Education	3,000
	$13,500

Open the village books in accordance therewith. How will collection of taxes be recorded? How will disbursements against appropriations be recorded? What will the balances of the accounts at any date show?

13. What is a contingent liability? Give examples. In what form should such liabilities appear in a financial statement?

14. Is depreciation of plant a legitimate element of the cost of goods produced? Explain the method employed to keep plant in efficient condition out of earnings.

15. Give the ruling of a stock or shares ledger for a corporation. Show how this book is kept and indicate its relation to the general books of account.

Commercial Law.

Thursday, February 3, 1910—9.15 A. M. to 12.15 P. M., only.

Answer 10 questions but no more. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (✓) the number of each one of the questions you have answered. Each complete answer will receive 10 credits. Papers entitled to 75 or more credits will be accepted.

1. What is the meaning of the term "in escrow"?

2. What is a contract?

3. What are the principal elements in every contract?

4. What is a partnership?

5. What is an executor?

6. Can a partnership hold real estate in its firm name?

7. What will be the result if the title to real estate purchased by partnership funds is taken in the name of one of the partners?

8. What is an accommodation party and what is his liability?

9. At what time during the day should presentment of drafts or acceptances be made?

10. Does the certification of a check discharge the drawer from liability?

11. What liability, if any, does a bank assume in paying a check to a holder who claims under a forged indorsement?

12. *a* Will an assignee acting in good faith be protected in his acts if the assignment is afterward set aside as fraudulent?

b What is the general personal liability of an assignee for damages resulting from his acts or omissions?

c What compensation is allowed an assignee?

13. When may an executor voluntarily present his account and ask that the same be judicially settled?

14. *a* How many witnesses are necessary to the valid execution of a will?

b What persons under the statutes are permitted to make wills of personal property? of real property?

c May any of the formalities necessary to the execution of a will be omitted in the execution of a codicil?

15. In what cases would the signing of the firm name to a note by one member of a firm without consultation with the other member or members, bind the firm?

The State Board of Accountancy of Ohio.

Examination in Practical Accounting.—Part I.*

Wednesday, March 9, 1910—8.30 A. M.

Time allowance, 4½ hours.

Problem No. 1.

A and B are partners and share profits in proportion to their capital invested. C, D and E are partners, having equal interest in the business. A balance sheet from the books of A and B is as follows:

Assets:	
Accounts Receivable	$2,500.00
Cash in Bank	1,000.00
Merchandise as per inventory	2,500.00
	$6,000.00
Liabilities:	
Accounts Payable	$1,200.00
A's investment	1,500.00
B's investment	2,000.00
Bills Payable	500.00
Undivided Profits	800.00
	$6,000.00

C, D and E kept no books, but have the following Assets and Liabilities:

Assets:	
Cash in Bank	$800.00
Accounts Receivable	3,000.00
Merchandise as per inventory	3,000.00
Real Estate—Warehouse	1,200.00
	$8,000.00
Liabilities:	
Mortgage on Real Estate	$500.00
Accounts Payable	300.00
	$800.00

* For Part Two, Problem No. 4, v. Part I, pp. 84-86.

A and B arrange with C, D and E to form a corporation with a capital stock of $15,000.00. The corporation to assume all Assets and Liabilities of both partnerships. Each partnership agrees that a reserve of 10 per cent against Accounts Receivable shall be created and charged against their individual partnership holdings prior to the consolidation.

The entire capital stock is to be alloted to A, B, C, D and E, in proportion to their partnership holdings.

The organization expense paid by the new company was $200.00.

Make a Balance Sheet for the new company, and give each of the aforesaid partners his allotment of shares.

The State Board of Accountancy of Ohio.

Examination in Practical Accounting.—Part I.

Problem No. 3.

A trial balance taken from the books of a company which buys and sells merchandise and also manufactures part of the merchandise it sells shows the following accounts.

From the list, and without using figures, construct in the form you consider best a

(a) Balance Sheet;
(b) Manufacturing Account;
(c) Trading Account;
(d) Profit and Loss Account.

Advertising;
Accounts Payable;
Accounts Receivable;
Bills Payable;
Bills Receivable;
Bad and Doubtful Assets;
Cash;
Capital Stock;
Depreciation;
Discounts Allowed;
Discounts Received;
Freight—Raw Material;
Freight—Merchandise Purchased;
Fuel;
Furniture and Fixtures;
Interest Paid;
Insurance—Plant;
Factory Supplies;
Light;

Labor—Warehouse;
Machinery Repairs;
Insurance—Merchandise;
Own Product Returned by Customers;
Office Expense;
Machinery and Tools;
Land and Buildings—Factory;
Office Salaries;
Purchases—Merchandise;
Printing and Stationery;
Postage;
Donations;
Raw Material;
Rent—Factory;
Rent—Store and Office;
Reserve for Bad and Doubtful Accounts;
Reserve for Depreciation;
Sundry Factory Expense;
Salaries—Factory Management;
Salaries—Sales Department;
Sales—Merchandise Purchased;
Sales—Own product;
Traveling Expense—Sales Department;
Taxes;
Undivided Profits End of Last Year;
Wages, Factory.

Preparatory to closing the accounts the following schedule of inventories has been made:

Inventory of Raw Material:
Goods in Process;
Manufactured Product;
Factory Supplies;
Merchandise Purchased;
Unexpired Insurance—Plant;
Unexpired Insurance—Merchandise;

Examination in Practical Accounting.—Part I.

Problem No. 2.

Trial Balance After Closing Books.

1908.	
Real Estate	$75,000.00
Plant and Machinery	127,000.00
Horses and Wagons	23,000.00

Patents and Goodwill	$30,000.00	
Inventory	75,000.00	
Accounts Receivable	52,000.00	
Cash in Bank	33,000.00	
Bills Receivable	19,000.00	
Capital Stock		$300,000.00
Accounts Payable		34,000.00
Notes Payable		45,000.00
Profit and Loss		55,000.00
	$434,000.00	$434,000.00

1909.

Real Estate	$78,000.00	
Plant and Machinery	110,000.00	
Horses and Wagons	21,000.00	
Patents and Goodwill	30,000.00	
Inventory	91,000.00	
Accounts Receivable	50,000.00	
Cash in Bank	32,000.00	
Bills Receivable	17,000.00	
Capital Stock		$300,000.00
Accounts Payable		34,000.00
Notes Payable		15,000.00
Branch House Accounts	25,000.00	
Mortgage		30,000.00
Profit and Loss		87,000.00
	$462,000.00	$462,000.00

From the above two trial balances, which show that a net profit of $32,000.00 has been earned during the year 1909, prepare an account showing what has become of the profits earned in 1909.

The State Board of Accountancy of Ohio.

Examination in Commercial Law as Affecting Accountancy

Tuesday March 8, 1910—7:30 P. M.

Time allowance, 2½ hours.

Note.—Do not repeat questions, but refer to same by number and initial on left-hand margin of sheets. These question papers must be returned to the examiner in charge at the same time that the examination papers are handed in.

1. (a) What is a corporation?

(b) What is a charter of a corporation?

(c) Distinguish between a public corporation and a private corporation?

(d) How is a corporation organized?

(e) Through whom does a corporation act in transacting its business?

2. (a) What are the essential elements of a partnership?

(b) What are the articles of co-partnership and are they essential to a partnership?

(c) Can a partner sell his interest in a firm, and if so would the purchaser be a member of the firm?

(d) What right has a partner to bind the firm?

(e) In the event that the name of a partnership does not clearly show who all of the principals of the firm are, what is necessary for such a firm to do in order to bring suit?

(f) Can a partner bring a suit against the firm of which he is a member, or can the firm bring suit against one of its members for the collection of a debt?

3. (a) What is a contract?

(b) What are the essentials of a valid contract?

(c) How does every contract originate?

(d) Name three or more contracts that must be in writing in order to be enforced.

(e) What rights under a contract may be assigned and what rights may not be assigned?

(f) When does the statute of limitation begin to run?

(g) What is the statute of limitation in Ohio on Notes, Sealed Instruments, and Open Accounts?

4. (a) What is a negotiable instrument?

(b) What are the words of negotiability?

(c) What are the principal classes of instruments which are usually made in such form as to be negotiable?

(d) What is meant by "accommodation paper"?

(e) What are the rights and liabilities of parties to accommodation paper?

5. (a) What is agency?

(b) What is the duty of persons dealing with an agent with reference to the extent of the agent's authority?

(c) Where the agent discloses his principal and acts within the scope of his authority, what is the principal's liability to third parties?

(d) What remedy has a principal in case his agent pledges negotiable paper belonging to him?

6. (a) What is the difference between an assignee and a receiver?

(b) Under what conditions will an assignment for the benefit of creditors be set aside?

(c) How must an assignee qualify?

(d) What is an assignee's duty as to accounting?

7. (a) What is cumulative preferred stock? Wherein does it differ from non-cumulative stock?

(b) What are a stockholder's rights with respect to the books of a corporation?

(c) Under what theory is a corporation stockholder liable to creditors for unpaid subscriptions to corporation stock?

(d) Out of what fund may dividends be paid?

(e) If dividends are not paid in accordance with your answer to the preceding question, have the creditors of the corporation any action against the company or its stockholders?

8. What are the legal qualifications of a Certified Public Accountant in Ohio?

The State Board of Accountancy of Ohio.

Examination in Auditing.

Tuesday, March 8, 1910—2 A. M.

Time allowance, 3½ hours.

Note.—Do not repeat questions, but refer to same by number and initial on left-hand margin of sheets. These question papers must be returned to the examiner in charge at the same time that the examination papers are handed in.

1. In making an audit of the books of a corporation whose transactions are so numerous as to preclude the practicability of examining all entries in detail or checking all postings, what course would you pursue in your examination to insure the correctness of the balance sheet?

2. In making a complete audit how would you determine the correctness of the following items on the balance sheet?

(a) Customers' Accounts;
(b) Bank Balances;
(c) Bills Receivable;
(d) Securities;
(e) Inventory of Finished and Raw Materials.

3. Under instructions calling for a complete audit and verification of all entries, what supporting data would you require for the following?

(a) Purchases;
(b) Returned Purchases;
(c) Sales;
(d) Returned Sales;
(e) Cash Receipts;
(f) Cash Payments;
(g) Journal Entries.

4. On what basis should the following assets be valued in the preparation of a balance sheet?

(a) Manufactured Goods;
(b) Goods in Process of Manufacture;
(c) Raw Material;
(d) Accounts Receivable;
(e) Stocks, Bonds and Similar Investments;
(f) Bills Receivable;
(g) Patterns;
(h) Patents.

5. A salt company has completed a manufacturing plant, the machinery and equipment cost being $250,000.00. It is assumed that because of the nature of the business the entire machinery and equipment will have to be replaced every several years. In such a case how would you recommend that current repair and maintenance charges should be handled?

6. The profit and loss account of a manufacturing company, at the close of the fiscal year, shows on the debit side—stock on hand at beginning of the year, purchases of raw material, manufacturing expenses, general and selling expenses; and on the credit side—sales, stock on hand at the close of the year. Does the balance of these accounts constitute the net profits for the fiscal year, or should other charges be taken into account? If so, what are they?

7. You are sending one of your assistants to make an audit of the books of a company after the close of their fiscal year engaged in wholesale merchandising. In the form of instructions to him state briefly the successive stepts he is to take in making this audit. Also give him a memoranda of what he shall require of the company preliminary to the commencement of his work.

The State Board of Accountancy of Ohio.

Examination in Theory of Accounts.

Tuesday, March 8, 1910—9 A. M.

Time allowance, 3½ hours.

Note.—Do not repeat questions, but refer to same by number and initial on left-hand margin of sheets. These question papers must be returned to the examiner in charge at the same time that the examination papers are handed in.

1. (a) In your own language give a short description of the philosophy and the fundamental principals underlying any system of accounts based on theories of double-entry bookkeeping.

(b) What is the nature of the accounts on the debit or left-hand side of the ledger?

(c) What is the nature of the accounts on the credit or right-hand side of the ledger?

2. (a) Distinguish between "Receipts and Disbursements" and "Revenue and Expense."

(b) Distinguish between "Fixed Assets" and "Current Assets."

3. What is the meaning of the term and how are the following accounts used?

(a) Capital Stock;
(b) Funded Debt;
(c) Surplus;
(d) Dividend;
(e) Reserve Accounts;
(f) Reserve Funds;
(g) Expense;
(h) Venture;
(i) Suspense.

4. Describe fully the various books and their uses in a business with which you are entirely familiar.

5. Draw up a balance sheet for a business of considerable magnitude, other than a mercantile or trading buiness, having a share capital of several classes of shares, bonded indebtedness, floating debts, depreciation and other reserves.

6. (a) Give a definition of "Depreciation" and state how and why it arises.

(b) Give at least two methods of treating depreciation on books of account.

(c) Make the necessary journal entries to illustrate the two methods of setting up depreciation on the books of account.

7. What, on the books of a company, would be the proper method of treating cash accounts, as follows?

(a) On capital expenditures.

(b) On expenditures for materials for manufacturing purposes.

(c) On discounts allowed to customers on purchases for each, where the trade terms are a fixed date for payment.

(d) An issue of bonds is made for the construction of a plant. It takes two years to erect and put in operation. To what should the interest on the bonds be charged?

8. What are the chief considerations to be kept in mind in formulating an accounting system for any business?

9. What are the general classifications of cost, the sum of which makes up the cost of a manufactured article when sold?

10. On the theory that accounts may fall into the following classifications:

(a) Accounts with individuals;
(b) Accounts with things;
(c) Accounts with forces or ideas;

give a number of illustrations or names of accounts in a modern accounting system under each of these heads.

Papers Set by The Chartered Accountants Association of Manitoba.

Examination Papers, May 13, 1910.

Intermediate.—Mathematics.

Time, 3 hours.

1. Simplify—

(a) $$\frac{\{(1\ 1/10)^2 \div (1\ 3/5 + 9/25)\} \times (1\ 12/17 - 53/51)^2}{[3\ 1/2 - \{3\ 1/2 - (3\ 1/2 - 1\ 2/3)\}] \div \frac{4\ 1/5}{3\ 1/2 + 1\ 1/6}}$$

(b) $$\frac{279.8003 \times .0069}{798.6\ 7}$$

2. (a) Extract the square root of .00822649.
 (b) Extract the cube root of 12812904.

3. What amount will be required to be raised annually at the beginning of each year for five years so that there may be sufficient to provide a sinking fund of $25,000 at the end of the fifth year and to pay interest on $25,000 in the meanwhile at 5 per cent. per annum, money being worth 4 per cent.?

4. $792 56-100. WINNIPEG, April 14, 1910.

One hundred days after date I promise to pay William Jones or order seven hundred and ninety-two 56-100 dollars, with interest at 7%, at the Bank of Montreal here. Value received.

JAMES THOMPSON.

Find the proceeds of the above note discounted on the 23d April at 8%.

5. A person sells out of the Three-and-a-half Per Cents at 92¾ and realizes $18,550. If he invests two-fifths of the proceeds in the Four Per Cents at 96, and the remainder in the Three Per Cents at 90, find the alteration in his income.

6. A person buys six per cent. bonds, the interest on which is payable yearly and which are to be paid off at par three years after the time of purchase. If money be worth 5 per cent., what price should be given for the bonds?

7. A shipment of cattle was insured at 1 per cent. to cover the value, the premium and $500 additional. The premium was $100. Find the value of the cattle.

8. A Winnipeg merchant owes 18,000 francs in Paris. He buys a draft on London when sterling exchange is at 8 and when one pound is worth 25 1-5 francs. What does he pay for the draft?

9. Find the due date of the balance of the following account, and what amount will be required to settle it on the 1st of May, 1910, interest being charged at the rate of 6% per annum:

1910	Dr.			Cr.	
Jan. 1st.	To Mdse. at 30 days...	$800	Feb. 1st.	By Cash...	$500
Jan. 20th.	" " " " " ...	500	Mar. 15th.	By Cash...	275
Feb. 1st.	" " " " " ...	700			
Feb. 20th.	" " " " " ...	600			

Bookkeeping.—Practical and Theoretical.—Paper No. 1.

Time, 3½ hours.

1. The position of A. Brown, brickmaker, is as follows:

Assets.		
Plant	$50,000.00	
Lease	5,000.00	
Horses and Equipment	10,000.00	
Book Debts	5,000.00	
Bricks on Hand	8,000.00	
Fuel	2,000.00	
Cash	100.00	
Liabilities.		
Sundry Creditors		$27,000.00
A. Brown, Capital Account		53,100.00
	$80,100.00	$80,100.00

J. Smith, in consideration of his paying $16,550.00 and giving his note for $10,000.00, is to be credited with a half-interest in the business, A. Brown's interest being correspondingly reduced. The note is discounted with the bank for $150.00, it being agreed that the business shall stand the cost. Give the necessary journal entries to show these transactions, and thereafter draw up balance sheet showing the position of affairs at the beginning of the firm.

2. What do you understand by the following:
Capital Expenditure;
Revenue Expenditure;

Revenue Income;
Loose Plant and Tools;
Fixed Plant and Machinery;
and give one typical example of illustrating each from any business you may be familiar with.

3. Explain the difference between gross and net profit, and from any business you may be familiar with draw up short accounts to illustrate your answer.

4. The partners in Question One, after two years' operations, decide to close their books, and arrive at a basis of dissolution. J. Smith is entitled to draw $150.00 a month against his share of the profits. Both have freely withdrawn capital, as the following trial balance shows:

Plant	$50,000.00	
Lease	4,000.00	
Horses, etc.	10,000.00	
Accounts	7,000.00	
Bricks	7,500.00	
Brickmaking		$28,500.00
Fuel	9,000.00	
Bank		20,000.00
J. Smith, Drawings	2,400.00	
Rent	1,200.00	
A. Brown, Capital Account		9,750.00
Wages	15,650.00	
Bille Receivable (being unpaid amount of original not granted by J. Smith)	8,000.00	
J. Smith, Capital Account		15,000.00
Expenses	5,000.00	
Accounts Payable		40,000.00
Teaming		6,500.00
	$119,750.00	$119,750.00

Write 20 per cent. off plant, 25 per cent. off horses, and value the lease at $2,000.00. The profits or losses are to be equally divided. Dispensing with interest calculations, draw up profit and loss account and balance sheet, and in particular set forth in the latter all figures affecting the respective capital accounts. Give the necessary journal entries, including those for the complete closure of the books, in terms of your balance sheet.

5. What do you understand by an impairment of capital? Where such is met with, does it follow that the undertaking is in a bad way, and if not, illustrate what you consider a justifiable cause for such impairment?

6. Give in your own words what you understand from the following:
Preferred Stock;
Deferred Stock;
Ordinary Stock;
Debentures;
Mortgages.

7. A set of books have to be closed and a number of running expense accounts, such as insurance, taxes, advertising, wages, etc., contain amounts that are properly chargeable against the next year. Would you pass journal entries for these, and if so, give them? Would reversing entries be required, and if so, give them? Explain how the items might be dealt with in the books without the need of journal entries at all. Which do you think is the better course?

8. What do you understand by "writing down" of assets and "writing up" of assets? If you can cite any instance where the "writing up" of assets is, in your opinion, justifiable, how would you suggest that such be dealt with in the accounts?

9. Give in your own words a clear description of bookkeeping, and state generally the reasons why all who are engaged in business should keep books.

10. You have been appointed bookkeeper to a wholesale business, the affairs of which, owing to inefficient keeping of accounts, have become involved. Apart altogether from systems in the generally understood sense of the term when applied to bookkeeping, can you state two fundamentals that should be kept clearly before you in evolving a satisfactory set of accounts?

Bookkeeping.—Practical and Theoretical.—Paper No. 2.

Time, 3½ hours.

1. In the trial balance of a set of books you find the following:
Depreciation;
Bad Debts;
Suspense;
Bad Debts Suspense;
Goodwill;
Profit and Loss Account;
Bills Receivable and Payable;
Depreciation Fund;
Preliminary Expenses;
Interest Accrued;
Reserve;
Capital Account.

Write a few lines describing the nature of each, and how in most businesses the need for these accounts arises. State those that might be either debit or credit balances, and if debit, what does it betoken?

2. What do you understand by the phrase "the account is in credit," and can you name some accounts in speaking of which the term may aptly be applied?

3. Substituting imaginary figures in any kind of business at all that you may be most familiar with, submit in condensed form a typical trial balance, profit and loss account, and balance sheet of the business or undertaking selected.

4. How may a trader who does not draw up trading and profit and loss accounts, but who marshals his assets and liabilities at the end of each year, ascertain his annual gain or loss? Do you recommend this course of ascertaining profits, and if not, as a practical bookkeeper, point out the shortcomings of this method.

5. What do you understand when told that books are in true balance? In your own words, write a short description of what a trial balance conveys to your mind.

6. You are manager of an agency and exchange business in Costa Rica. At the end of a year's operations you have to report the position of affairs to your principal in London, who handles large consignments of coffee, and on whom much of the sterling paper dealt in has been drawn. The following are the balances:

GOLD BALANCES.

Glyn, Mills, Currie & Co., £5,000	$24,400.00	
Seaboard National Bank, N. Y.	10,000.00	
Otis, McAllister & Co., San Francisco	8,000.00	
Alfred Jones, Capital Account		$59,000.00
Balance	16,600.00	
	$59,000.00	$59,000.00

CURRENCY BALANCES.

Working Expenses	$30,600.00	
Commercial Bank	146,000.00	
Exchange		$310,000.00
Advances to Coffee Planters	150,000.00	
Balance		16,600.00
	$326,600.00	$326,600.00

The net gold liability being $16,600.00, provide for this at the rate of $2.00 currency for every dollar gold, and thereafter draw up balance sheet, grouping properly your gold and currency assets and liabilities, showing on profit and loss account the amount at debit or credit of that account.

7. Give in your own words some of the uses of the journal, and illustrate with three or more typical entries, setting forth the manner in which you think a journal entry should be written and worded.

8. What do you understand by controlling accounts, and illustrate from any business you are familiar with the working of same, stating some of the advantages from the use of such?

9. Draw up a cash book where controlling accounts are kept, and give them, and in addition give three separate headings on both sides of the cash book for incoming and outgoing figures that are of frequent occurrence throughout the month. What advantages are derived from these columns?

10. You have been called upon to prepare the profit and loss account and balance sheet of a firm of architects. The only reliable book appears to be the ledger, and the following are the accounts as found therein:

PETER SMITH.

To Plans, etc.	$559.20	By Cash	$75.00
To Sundry Cash Outlays on his behalf	8.75	By Note	50.00
		By Allowance	7.50

A. JONES.

To Plans	$750.00	By Allowance	$37.50
		By Cash	162.50

E. LOCKWOOD.

To Drawings	$300.00	By Allowance	$25.00
To Cash for Sundry Outlays	8.30	By Cash	283.30

E. BROWN.

To Plans and Specifications for Block	$5,750.00	By Cash	$2,750.00

SALARIES ACCOUNT.

To Salaries	$1,570.00

GENERAL EXPENSES.

To Sundry Expenses....	$430.00

RENT, LIGHT, ETC.

To Cash..................	$500.00

BANK.

To Deposits..............	$3,270.80	By Withdrawals..........	$2,517.05

Prepare one summary from which may be seen the totals, both as to cash, business placed on the books, allowances and outstanding balances. With the help of such totals, open the necessary additional ledger accounts to throw the ledger into balance. From the resulting trial balance (which give) prepare a profit and loss account, seting aside 5% on the outstanding accounts, and draw up a balance sheet showing the profit or loss in equal portions on capital accounts "A." and "B."

Partnerships.

Time, 3 hours.

1. A., who was formerly the general manager for B., trading under the name of B. & Co., at a salary of $150 per month, entered into a new agreement with B. whereby in lieu of a salary he was to receive one-third of the profits of business. B. & Co. subsequently became insolvent. Had the creditors of B. & Co. any recourse against A.? State reasons.

2. If a partnership is formed for the prosecution of an illegal business, will the Court recognize its existence?
   (a) By enforcing its claim against others, or
   (b) By compelling either partner to account to the other for capital and profits in his hands, or
   (c) By forcing either to contribute his share of the loss to the other.

3. Has one partner authority—
   (a) To make an assignment to the official assignee of the firm property without the knowledge of his co-partner?
   (b) To bind the firm property by chattel mortgage given to secure a firm debt without the consent of his co-partner?

4. (a) Define partnership.
   (b) State the difference between co-owners and partners.

5. (a) A. and B. carry on business under the name of X. & Co. A. retires from the firm and gives no notice of his retirement. The old customers who knew of A.'s connection with X. & Co. continue to deal with it on the faith that A. is still a member of it. Is A. liable to the old customers? Give reasons.

(b) Does A. incur any liability to new customers of X. & Co.?

(c) Suppose if, on A.'s retirement, C. joined B., and B. and C. carry on business as X. & Co., and the old customers of X. & Co. go on dealing with it without notice of A.'s retirement or C.'s admission, can an old customer maintain an action against A., B. and C. jointly for a debt contracted by X. & Co. after A. retires, or can he elect to sue A. and B. or B. and C.? Give reasons.

6. Can an infant be a partner? Whilst he is an infant does he become responsible for the debts of the firm? Can a judgment creditor of the partnership cause an execution to be levied against the infant's share in the partnership?

7. If a member of a partnership becomes insane, is he responsible for the subsequent misconduct of the other members? Would the insanity of a partner immediately dissolve a partnership?

8. Where a firm in the course of its business receives money belonging to other people and one of the partners misapplies that money whilst it is in the custody of the firm, must the firm make it good?

9. Does the person who is admitted as a partner into an existing firm become liable to the creditors of the firm for anything done before he becomes a partner?

10. (a) Can a majority of the partners expel any partner where the partnership agreement is silent on this point?

(b) What rights have the legal representatives of a deceased partner with respect to the management of the partnership affairs?

Banking.

Time, 3 hours.

1. What class of securities other than notes and drafts will a bank make advances upon? Name three, and state fully the nature of each.

2. A. & Co. are doing a large country business, and on the first of each month make thirty-day drafts upon their customers for the previous month's purchases, some of which are accepted and paid and others are

refused. All drafts are deposited with the bank as collateral security for advances made. State what you think would be the best method of keeping track of the collateral deposited with the bank.

3. What is the difference between inland and foreign exchange?

4. What is the difference between a "Demand Draft," a "Sight Draft" and a "Time Draft"? Give one of each.

5. P. is the holder in due course of a promissory note for $1,000 made by K. and endorsed by D., B. and C. At maturity the note is protested for non-payment. Should P. sue and recover from C., would C. have any rights against D. and B.? If, however, P. should recover from D., what recourse would D. have as against maker and other endorsers? Give reasons.

6. Give in a few words what you understand by—
(a) Bailee Receipt;
(b) Warehouse Receipt;
(c) Letter of Hypothecation;
and in what way are these used in obtaining credit?

7. What is the legal rate of interest in Canada? What is the highest rate of interest banks can charge? Under the Usury Act what is the highest rate of interest that can be collected?

8. Name the points that are essential to a valid protest and notice of protest. How should notice of dishonor be given and within what time?

9. In the case of a firm owing a bank for advances, if the members of the firm have accounts with credit balances with the firm's bankers, can the bank apply them in liquidation of the firm's indebtedness? If not, why?

10. If a note or a draft is made payable to a particular person, for example, "Pay John Smith the sum of, etc.," is it negotiable? If so, how can it be made not negotiable?

11. A bill is payable at a determinable future time—
(a) At sight or at a fixed period after date or sight;
(b) On or at a fixed period after the occurrence of a special event, which is certain to happen, though the time of happening is uncertain.
Give three examples of bills that would be valid under (b) and three that would not.

12. A. draws upon B. for $100. B. accepts the draft, payable at a bank. When the bill matures the bank is the holder. Is presentment necessary? If so, when must it be presented?

13. What is a restrictive endorsement? Give two examples of restrictive endorsements.

14. M. draws a cheque for $500 in favor of P., but the next day he discovers that it should have been for $450, and requests the bank to stop payment. P. in the meantime has presented the cheque and had it marked. Can the bank refuse payment or must it pay the cheque? Give reasons for your answer.

Company Law.

Time, 3 hours.

1. (a) Under the Manitoba Joint Stock Companies Act, what percentage of the capital stock of a company must be subscribed and what percentage of the stock subscribed must be paid before the company may commence business?

(b) What percentage of the allotted stock of a company must be called in within one year from the company's incorporation?

2. Under the Manitoba Act what voting power is possessed by a shareholder?

3. A company's earnings for a year would enable it to declare a dividend of ten per cent. The directors decline to declare a dividend, wishing to employ the profits in extending business, and a majority of the stockholders agree. Can the dissenting shareholders obtain interference at law?

4. A by-law of a company empowered to carry on a general mercantile business provides that the company shall not enter into a contract where the amount involved is over $1,000 unless same is approved by a majority of the directors. The managing director orders goods for a larger amount. Is the company bound in the absence of such approval where the seller is ignorant of the by-law?

5. (a) Keeping in mind Section 46 of the Manitoba Act, which provides that each shareholder, until the whole amount of his stock has been paid up, shall be individually liable to the creditors of the company to an amount equal to that not paid thereon, may a company sell its shares as fully paid up at less than the par value thereof?

(b) What provision is in the Alberta Act as to selling shares at a discount?

6. May a company incorporated to carry on a general trading business acquire and mortgage real estate for the purpose of its business?

7. Section 64 of the Manitoba Act prohibits a company from engaging in the business of banking. Acting under a by-law, the company purchases shares in a bank. Is such purchase valid?

8. May a person accept a present of shares in a company in consideration of his joining the board of directors?

9. Directors of a company indorse its note to enable it to make a loan. The note is paid by the first indorser. Is he entitled to full indemnity from the subsequent indorsers?

10. May an application for shares in a company be withdrawn before the company sends him notice of allotment?

11. The promoters of a company before its incorporation employ an accountant to prepare its prospectus, which the company makes use of. May he recover for his services against the company?

12. Argue for or against the right of a company that is in debt paying dividends out of profits.

Final.—Auditing.

Time, 3 hours.

1. Would you consider cheques made payable to order sufficient vouchers for the payment of trade accounts? If not, under what circumstances would you accept such cheques as vouchers, and for what class of payments?

2. Could a correctly prepared statement of receipts and payments be relied upon by the directors of a trading company to ascertain whether they would be justified in declaring a dividend? State briefly your reasons for or against.

3. In the case of a manufacturing company what classes of expenditure should enter into the manufacturing or trading account, and what into the profit and loss account?

4. State as briefly as possible what would guide you as auditor in determining what are the "Divisible Profits" of a company.

5. At the close of the year you are unable to attend at the office of a company you are auditor for to count the cash in hand. What steps would you take to enable you to certify to its correctness?

6. What methods would you adopt for the verification or confirmation of the following items:

(a) Stock Sheets and Material on Hand;
(b) Book Debts;
(c) Investments.

Would you be justified in accepting certificates from the managing director, manager or other official as to their correctness?

7. What is the object of crediting the partners of a firm with interest on their capital before ascertaining the profits divisible between them?

8. In examining the securities (of a company you are auditor of) which consist of inscribed stocks, certificates for shares and bills receivable, what would be your procedure, and what main object would you have in view?

9. Would you consider that entries in the directors' minute book of a company were, in all cases, sufficient authority for you to approve all payments or transactions mentioned therein? If not, state some exceptions.

10. Under what circumstances would an auditor of a company be justified in refusing to give any certificate whatever to a balance sheet?

11. Among the assets on the balance sheet of an engineering firm whose accounts you are auditing you find an item of "Work in Progress, $125,000." What steps would you take to verify the correctness of this amount?

12. What is a "Secret Reserve"? Give three examples, showing how secret reserves can be formed.

Advanced Bookkeeping and Accounts.—First Paper.

Time, 3 hours.

1. From the following trial balance of the Atlas Manufacturing Company, Limited, compile balance sheet and profit and loss account as at the 31st December, 1909, in the form you would advise the company to adopt:

First Call on Stock..................................	$500
Second Call on Stock.............................	700
Winnipeg Trust Company (Debentures Deposited as Security for Loan, part of $100,000 issued)........	20,000

Preliminary Expenses	3,000	
Property and Plant	200,000	
Machinery and Goodwill	50,000	
New Property and Improvements	50,000	
Interim Dividend Paid	9,940	
Inventory of Stock	10,500	
Accounts Receivable	5,000	
Interest on Loan and Debentures to 31st December, 1909	4,500	
Bank Account	21,400	
Cash on Hand	560	
Capital, 2,000 Shares of $100 each		$200,000
Debentures		100,000
Winnipeg Trust Company Loan		15,000
Accounts Payable		6,500
Premium on Shares		3,500
Trading Account		50,000
Reserve for Discounts and Bad Debts		500
Profit and Loss Account, after paying Dividend 1st January, 1908		600
	$376,100	$376,100

Have you any criticism to make in regard to the trial balance?

2. M.'s and B.'s capital on 1st January, 1908, was $50,000, represented by the following:

Assets.		*Liabilities.*	
Cash in Bank	$11,875	Loans	$12,500
Stock in Hand	35,000	Accounts Payable	5,000
Fixtures	625		
Warehouse	10,000		
Accounts Receivable	10,000		

During the year 1909 their transactions were:

Goods Bought	$62,000
Goods Sold	80,000
Paid for Goods by Cheque	55,000
Received from Sale of Goods Deposited in Bank	72,500
Paid Cash for Salaries	2,500
Paid Cash for Rent, Taxes, Wages and Office Expenses	3,750
Drawn out in Cash by M	1,500
Drawn out in Cash by B	1,000
Paid Cash for Traveling Expenses	500
Paid Cash for Freight on Goods	1,500
Discount Allowed on Sales	2,000

Discount Received from Purchases	1,563
Goods Returned by Customers	1,250
Goods Returned to Manufacturers	1,500
Paid off Loan and Interest by Cheque	13,125
Paid Cash for Repairs to Warehouse	250
Bank Interest	250
Bank Commission	100
Cheques Drawn on Bank to make Cash Payments	11,000

Stock on hand at the end of the year amounted to $33,750, and they owed $150 for freight and $562 for rent and taxes. Unexpired insurance amounted to $188. Allow for discount on accounts receivable $200 and $125 on accounts payable. No interest on capital or partners' salaries was to be charged, and profits were to be shared equally. Make trial balance as at December 31, 1909, and prepare trading and profit and loss accounts, capital accounts and balance sheet.

3. Brown and Jones have dry goods stores near each other. They decide that, by amalgamating their business and forming a joint stock company, they can do a larger and more profitable business at less expense. Both have kept their books by single entry. You are called in to give the necessary statements to enable them to ascertain how they stand and to open the books of the Brown-Jones Company, Limited. You find the following accounts in the ledgers, viz.:

BROWN'S LEDGER.

Balances as at the 1st August, 1909.

Cash on Hand	$250	
Bank Balance	5,400	
Cash Sales		$10,000
Book Debts	25,000	
Bills Receivable	3,000	
Store and Land	30,000	
Fixtures	2,000	
Wages and Expenses	4,000	
Accounts Payable		6,000
Bills Payable		2,550
Brown's Drawings	10,000	
Freight, Duty and Cartage	8,000	

Inventory of goods, $8,700; unexpired insurance, $200.

JONES' LEDGER.

Balances as at the 1st August, 1909.

Cash on Hand	$100	
Bank Balance	3,500	
Cash Sales		$12,000

Stores and Land	$25,000	
Fixtures	1,500	
Wages	2,000	
Jones' Personal Account	6,000	
Expenses	1,500	
Book Debts	15,000	
Bills Receivable	1,000	
Freight, Duty and Cartage	5,000	
Accounts Payable		$5,000
Bills Payable		3,000

Inventory of goods, $5,800; unexpired insurance, $100.

The capital of the company is to be $150,000, in shares of $100 each, of which Brown is to take $70,000 and Jones $50,000. If the capital invested in the business of either exceeds these sums then they are to receive the surplus in cash, but if it is less then they are to pay in the difference in cash. The balance of the stock is subscribed and paid for in cash.

Make necessary changes in Brown's and Jones' ledger balances to show standing of firms and capital invested, and give trial balance from company's ledger after opening entries have been made.

4. A. and B. are partners in a business in which each has invested $15,000. They decide to take in a new partner, C., who is to put in $15,000 as his capital and in addition pay $2,000 for goodwill. State the different ways in which the sum paid for goodwill may be treated. Which method do you consider the more correct? Give your reasons.

5. M. and N., general merchants at Reaburn, make an assignment for the benefit of their creditors, and you are requested by the assignee to prepare a balance sheet, statement of affairs and deficiency account. You find from the ledger that the assets and liabilities are as follows:

Assets.			*Liabilities.*	
Cash in Hand		$500	Bills Payable	$8,000
Book Debts		7,000	Accounts Payable	6,000
Store and Land		15,000	Mortgage on Farm Lands	5,000
Farm Lands		10,000	Mortgage on Store	8,000
Store Fixtures		400	M. Capital	12,000
			N. Capital	8,000
Inventory.				
Hardware	$3,000			
Groceries	2,500			
Dry Goods	4,000			
Boots and Shoes	1,100			
		$10,600		
M.'s Drawings		2,100		
N.'s Drawings		1,400		
		$47,000		$47,000

On a valuation of the assets being made, it is found that of the book debts $4,000 are good, $2,000 doubtful and $1,000 bad, and in order to be on the safe side 10 per cent. is to be deducted from the good, 40 per cent. from the doubtful and the bad are not to be taken in. The store and land are valued at 20 per cent. and the farm lands at 10 per cent. less than they stand at in the ledger, the fixtures are only worth 60 per cent. on the dollar and the inventories are to be reduced as follows: Hardware 10 per cent., groceries 15 per cent., dry goods 30 per cent., and boots and shoes 25 per cent. M. has property valued at $1,000 and N. has no assets outside of the partnership. Give statement of affairs and deficiency account.

Advanced Bookkeeping and Accounts.—Second Paper.

(*a*) *Trustees' and Executors' Accounts.*

Time, 3 hours.

1. Explain the difference between an executor and administrator, and state by whom each is appointed.

2. What are the first duties of an executor or administrator after the probate of the Will or Letters of Administration have been granted?

3. Unless otherwise authorized by the will, in what securities must the executor invest the moneys intrusted to him?

4. A corporation issues 10-year bonds to the amount of $50,000.00, securing same by a mortgage on its property, which is placed in the hands of a trust company. The trust deed provides for the establishment of a sinking fund to retire the bonds at maturity and that equal annual payments be made on the 1st of January in each year. Give the amount of this annual payment, interest compounded at 6%?

5. In the estate of a certain testator the amount of cash on hand after paying all bequests is $10,000.00. This the executor invests as follows, as at January 1, 1909: $5,000.00 in first mortgage on real estate valued at $9,000.00, bearing interest at 6%; 1,250 shares La Rose Gold Mine Stock at $4.00 (par value, $5.00), dividends at 3% per quarter, payable January 31st and April 30th.

On May 31st he sells the 1,250 shares at $3.00 and invests the proceeds, together with dividends paid, in 20 shares Bank of Hamilton Stock at 205, paying commission and brokerage charges of $25.00. On September 30th he sells the 20 shares Bank of Hamilton Stock at 220 and invests the proceeds in first mortgage on real estate valued at $7,000.00, bearing interest at 6%, payable quarterly.

Give executor's profit and loss account as at December 31, 1909, and show position of estate at that time, payments of interest on both mortgages having been made.

(*b*) *Cost Accounts.*

1. Explain the uses of a cost accounts system and state the advantages to a company employing such a system over a company basing their costs on the profit and loss account at the end of the year.

2. Give definitions of the following:
   Prime Cost;
   Laid Down Cost;
   Gross Profit;
   Productive Labor;
   Machine Cost.

3. What is your interpretation of indirect or overhead expenses?

4. In a manufacturing company employing a cost accounts system what disposition would you make of the following:
   Depreciation on Plant;
   Depreciation on Goodwill;
   Depreciation on Stock;
   Depreciation on Accounts Receivable;
   Depreciation on Factory Property.

5. State briefly the duties of an auditor in connection with the cost accounts system in auditing the books of a manufacturing company employing such a system.

Joint Stock and Partnership Accounts.

Time, 3 hours.

1. A company is formed with a capital of $100,000, in shares of $100 each, to take over the business of A., B. & Co. The assets to be acquired are: (1) buildings, $30,000; (2) machinery, $18,000; (3) stock, $20,000. The vendors are to collect the book debts and discharge the liabilities. The price to be paid, inclusive of goodwill, is fixed at $80,000, payable as to $50,000 in cash and as to the balance in fully paid shares of the company. A prospectus is issued offering 700 shares to the public, payable $25 per share on application and $50 on allotment; 600 shares are applied for, and these are allotted on 1st February, 1910, on which date the vendors' shares are also allotted. Separate accounts are kept by the bank for sums payable on application and allotment. On 28th February the amounts due on allotment had been paid on 500 shares, and on that date

the sums at credit of the bank accounts were transferred to a general bank account and a cheque drawn in favor of the vendors for $30,000 to account. Prepare entries, in journal form, recording these transactions in the books of the company, and show the various ledger accounts.

2. Prepare a balance sheet as at 31st December, 1909, of the Winnipeg Manufacturing Company, Limited (which may be engaged in any form of manufacturing you please). Insert figures for all the usual items for the business you select, showing in particular the following items, or such of them as you think should appear on the balance sheet:

Capital authorized, subscribed and paid up;
Amount of calls in arrears;
Amounts received in respect of forfeited shares reissued;
Amounts received in respect of forfeited shares not reissued;
Contingent liability in respect of bills receivable under discount;
Liability in respect of cumulative preference dividend which has been passed for the last two years;
Reserve not specially invested.

State briefly the arguments in favor of your method of treatment of the above items.

3. A company borrows $120,000 for a period of ten years to pay off an existing loan at higher rate of interest, paying in connection therewith in brokerage and costs $2,500. State briefly how you would treat this item of $2,500, giving your reasons.

4. (a) Outline the duties of the secretary of a limited company in connection with the transfer of the company's shares.

(b) Give rulings for a simple form of transfer register and stock ledger.

5. A. and B. are partners, sharing profits and losses in proportion to their capitals, which are: A., $21,000; B., $14,000—as brought out in the balance sheet. They assume C. as partner on condition—

(a) That he accepts the balance sheet as correct, $5,000 to be inserted for goodwill and added ratably to the capital of A. and B.

(b) That he pays cash into the new firm sufficient to give him one-fifth share of the whole business, the ratio of A.'s capital to B.'s remaining unchanged.

Show the entries required to record these transactions and the capital account of each partner as it will stand after the transactions are carried through. Show the amount of cash paid in by C., and state in what proportions each partner shares in the profits and losses of the new firm.

6. Brown and Black are partners carrying on a business in Winnipeg. On 31st December, 1909, after adding profits for the past half year, Brown's capital amounted to $15,000 and Black's to $10,000. On that date they take into partnership Green, upon the following terms, viz., he is to bring in capital amounting to $2,500, and each partner is to be credited

with interest on his capital at 5% per annum. All profits (after debiting interest) up to $5,000 are to be shared by Brown and Black exclusively in proportion to the amounts of their capital at 31st December, 1909. All profits in excess of $5,000 are to be shared equally by the three partners. Accounts are to be prepared and profits and interest credited half-yearly. Green is to be credited with a salary of $1,000 per annum. On 30th June, 1910, the profits divisible after debiting Green's salary, which he has drawn, but before charging interest on partners' capital, amounted to $7,500. The partners' withdrawals, which are not chargeable with interest, were: Brown $2,500, Black $2,000 and Green $750. Draw up partners' separate accounts as they should stand on July 1, 1910.

The partnership agreement does not make any mention of what is to be done if the profit and loss account shows a loss. Suppose that that the above $7,500 had been a loss instead of a profit. State briefly how you would have treated it and give a reason for your answer.

7. You are called in by two or more persons contemplating partnership to meet their lawyer and consult with him as to the clauses to be inserted in the partnership agreement in connection with the keeping of the partnership accounts and the financial relationships of the partners. Mention any points which occur to you which you would suggest being provided for to make the agreement as satisfactory as possible from an accountant's point of view.

8. You are requested by a firm carrying on business in Winnipeg to supervise their bookkeeper in the writing up of the partnership books. You find that A. had $10,000 at his credit at the date of the last balance sheet and that this has since been reduced to $8,000. You also find that he has been receiving a share of the profits. You are told, however, that he is not a partner and that the $8,000 is to be treated as a loan. Can this be the case, and if so how would you expect to find that A. had protected himself from the risk of being treated as a partner in the event of the insolvency of the firm? In the case of such insolvency would A.'s position differ from that of an ordinary lender, and if so, in what way? If A. had been a limited partner, could he legally have made the above reduction in the amount at his credit, and if not, what would you have advised on finding that he had done so? Give reasons for your answer.

Assignments.

Time, 3 hours.

1. A trader in insolvent circumstances sold his stock in trade and deposited the purchase money to the credit of his account in the bank. At the time an overdue note of his was held by bank and he gave the bank a cheque to cover same. Is such payment a preference and void as against his creditors?

2. Where a debtor refuses to make an assignment for the benefit of his creditors have the creditors any means of forcing him into liquidation?

3. A debtor making an assignment has a burdensome lease and shares in a bank which is being wound up and to which double liability attaches. Is the assignee obliged to take these over with the rest of the assets?

4. Is it necessary that an assignment for benefit of creditors under the act be registered in order that it may be valid?

5. May one partner make an assignment for the benefit of the firm's creditors?

6. What remedy has the assignee or creditors to compel the assignor to make disclosure as to his assets and affairs of his estate?

7. If an assignee before distribution has notice of a claim, but the creditor has failed, though notified to do so, to put in proof of claim, may the assignee distribute the estate without regard to the claim?

8. Is a payment of money by a debtor to his creditor open to attack as a fraudulent preference?

9. A debtor executed a chattel mortgage in favor of a money lender in consideration of a present cash advance, which, to the money lender's knowledge, was intended to be and was paid to a creditor. Is the chattel mortgage valid as against the other creditors?

10. A solvent trader sold his business to a company consisting of himself, his wife, two sons and a daughter, he holding all the shares but six. In part payment of the purchase money the company gave to him debentures charging all the company's property, both present and future. The company went into liquidation. After paying the debentures there was nothing left to pay creditors, including creditors of the trader. Is the transaction between the trader and the company valid as against his creditors?

Commercial Law.

Time, 3 hours.

1. A. wrote on September 2d offering to sell wool at a certain price to B. and asked for an answer in the course of post. The letter only reached B. on the 7th, who accepted at once. Before A. received the acceptance he had already sold the wool. What right has A. against B.? Would it make any difference to your answer if the letter had reached B. on the 3d, and he had answered at once, but his letter of acceptance had never reached A.?

2. (a) What is meant in law by "a consideration sufficient to support a simple contract"?

(b) Is a contract ever binding without consideration? If so, when?

(c) Without other consideration, when is a smaller sum ever satisfaction of a greater?

3. A. being in financial difficulties, his creditors, with the exception of B., agree to accept fifty cents on the dollar. As an inducement to B., A. secretly agrees to give him seventy-five cents. B. accepts. What rights has B. against A., and what effect does this contract have on the whole transaction?

4. Corporations have a limited capacity to contract.

(a) Why?

(b) When can a corporation bind itself on a bill of exchange? Must the corporate seal be attached?

(c) Generally, is the corporate seal necessary in contracts by corporations?

5. Distinguish the position of a *bona fide* holder of a negotiable instrument and an assignee of an assignable obligation in the event of their suing for their respective claims.

6. (a) What is a "Bill of Lading"? Is it negotiable?

(b) What is meant by "stoppage in transit"?

(c) When is the right defeated?

7. (a) What is a "*del credere* agent"?

(b) Is the principal liable for an agent's fraud? If so, when?

8. What are the characteristics of a "common law lien"? How is the right acquired and how lost?

9. What are the requisites of a valid tender? What is Canadian legal tender?

10. B. verbally agrees to buy a motor car for $1,500 from A. B. refuses to take delivery of the car. What rights has A.?

The State Board of Accountancy of Virginia.

Examination in Auditing.

November 17, 1910—1.30 P. M. to 5.30 P. M.

Answer twelve (12) questions, but no more. Do not repeat questions, but write answers only, designating the questions by number.

1. Give a brief outline of the duties and responsibilities of an auditor.

2. In auditing cash payments, how would you prevent the reproduction and passing of vouchers a second time?

3. In auditing the accounts of a corporation for the first year of its existence, what records and documents should be examined, in addition to the books of account and the vouchers?

4. If you had not been present to count the cash actually on hand at the date of the balance sheet, how would you afterwards verify its correctness?

5. How would you reconcile the balance shown by the bank settlement in the pass book with the balance shown by the check book or cash book? Having done this, is it necessary to check the deposits shown in the pass book with the receipts shown in the cash book?

6. In preparing the balance sheet of a corporation, how would you treat arrears of "cumulative" dividends on preferred stock?

7. To what extent is it permissible to carry as an asset the "organization expenses" of a corporation?

8. To what extent do you consider it necessary to verify the following: (*a*) Inventories; (*b*) Pay rolls; (*c*) Discounts; (*d*) Depreciations.

9. Give a full, detailed account of your procedure in auditing the cash account of a large mercantile corporation.

10. In auditing the books of a concern whose accounts receivable are kept in one or more subsidiary ledgers, with a proper controlling account in the general ledger, what verification, if any, would you make of such accounts?

11. State how you would verify the following: (*a*) Purchases; (*b*) Returned purchases; (*c*) Sales; (*d*) Returned sales; (*e*) Cash receipts; (*f*) Cash payments; (*g*) Journal entries.

12. State briefly, and in order of procedure, the different steps to be taken in a bank examination.

13. State your method of procedure in auditing the accounts of a building and loan association.

14. Define and differentiate capital expenditure and revenue expenditure.

15. In the case of a corporation which has been in existence for several years, if you were engaged to audit the accounts for the last year only, would you consider it necessary to inspect the minute book, stock ledger, bond register or any of the entries in the books of account at dates prior to that covered by your audit? Give reasons.

Examination in Theory of Accounts.

November 17, 1910—9 A. M. to 12.30 P. M.

Answer twelve (12) questions, but no more. Do not repeat questions, but write answers only, designating the questions by number.

1. State the essential principles of the following forms of bookkeeping and describe the method of determining the profit or loss of a business under each system:
(*a*) Single entry; (*b*) Double entry.

2. Define the following:
(*a*) Gross profit; (*b*) Net profit; (*c*) Trading account; (*d*) Profit and Loss account; (*e*) Active assets; (*f*) Fixed assets; (*g*) Current liabilities; (*h*) Funded debt; (*i*) Cash discount; (*j*) Trade discount.

3. Define the following and state what essential difference there is between them:
(*a*) Trial balance; (*b*) Balance sheet.

4. Define the following and state how each should be treated in the books of a corporation:
(*a*) Reserve; (*b*) Sinking fund.

5. Define the following and state how you would treat them in a balance sheet:
(*a*) Prepaid expenses; (*b*) Contingent liabilities.

6. Define the following and state some of their respective advantages and disadvantages:
(*a*) Voucher system; (*b*) Loose Leaf system.

7. Describe the process of changing a set of books from single entry to double entry.

8. State the purpose and describe the process of analyzing a ledger.

9. What are controlling accounts? For what purpose are they employed and how are they conducted?

10. Name two methods of distributing the overhead or indirect expenses of a factory so as to equitably apportion the same to the cost of the different articles manufactured, and state briefly the advantages and disadvantages of each method.

11. How do the accounts of a corporation and those of a copartnership differ in treatment of the following:

(*a*) Capital invested; (*b*) Distribution of profits.

12. Describe two different methods in ordinary use for writing off the premium on bonds purchased, stating briefly their respective advantages and disadvantages. What is the most scientific way of treating said premiums?

13. If called in to make an examination of the accounts of a mercantile concern which had suffered fire loss six months after the taking of the latest inventory, how would you determine the value of the merchandise on hand at time of fire? What verification of the accounts, if any, would you make?

14. Should a manufacturing concern invoice its goods sent to branch houses (1) at selling price, or (2) at the prevailing wholesale price of the same or similar goods obtainable in the open market, or (3) at cost? State advantages and disadvantages of each method.

15. Define cost accounting, and state wherein manufacturing or factory costs differ from commercial or selling costs.

Examination in Commercial Law.

November 19, 1910—9 A. M. to 12.30 P. M.

Answer ten questions, but no more. Do not repeat questions, but write answers only, designating the questions by number.

1. State briefly the method to be followed in Virginia in each of the following:

(*a*) Forming an ordinary business corporation; (*b*) Dissolving an ordinary business corporation; (*c*) Issuing bonds of an ordinary business corporation.

2. Describe the following stocks and securities issued by corporations; state their leading characteristics, the assets securing them, respectively, and their order of preference in case of liquidation:

(*a*) Preferred stock; (*b*) Common stock; (*c*) First mortgage bonds; (*d*) Promissory notes securing loans.

3. Define the following:

(*a*) Liability of persons associating themselves together and engaging in business as a corporation, when the incorporation is defective or

incomplete; (*b*) Liability of stockholders after perfecting the incorporation; (*c*) Public service corporations.

4. Distinguish between State (Virginia) banks and National banks in the following particulars:

(*a*) Method of forming; (*b*) Minimum capital stock prescribed by law; (*c*) Liability of stockholders in case of insolvency.

5. Collateral has been deposited with the payee of a promissory note, but with no special contract as to converting same or subjecting it to the payment of the note, which is not paid. How should the payee proceed to convert or subject the collateral toward the satisfaction of the debt evidenced by the note?

6. Give the order of payment in the distribution of the estate of a decedent.

7. When an endorsed promissory note is not paid at maturity: (*a*) What course should the holder pursue in order to prove that payment has been demanded of the maker of the note? (*b*) Against whom has the holder a right of recovery? (*c*) Against whom has an endorser who has been compelled to pay a dishonored note a right of recovery? (*d*) Under what circumstances is an endorser relieved from liability as such? (*e*) How may the liability of the endorser be preserved without protest for non-payment?

8. How should the assets of a co-partnership, and the assets of the respective individual members thereof, be applied when the several members owe individual debts in addition to the debts owing by the co-partnership?

9. Define general agent and special agent, respectively, and state the general rules as to liability of the principal for acts of each kind of agent.

10. State three ways by which an agency may be created and three ways by which it may be terminated.

11. Name three kinds of partnership recognized under the laws of Virginia; and state, briefly, their distinguishing characteristics.

12. Distinguish between partners in general business and partners in common of a tract of land.

13. What is a contract? Name the essential elements of a valid contract, and state who are legally qualified to make contracts.

14. Mention briefly the distinctive characteristics of a building and loan association.

15. When does the statute of limitations apply in Virginia on: (*a*) Promissory notes; (*b*) Bonds; (*c*) Written contracts; (*d*) Contracts under seal; (*e*) Open accounts; (*f*) Judgments; (*g*) Mutual accounts between merchant and merchant?

Examination in Practical Accounting.

Friday, November 18, 1910—9 A. M. to 12.30 P. M.

Questions 2 and 5 must be answered.

Questions 1, 3 and 4 optional with the applicant, who must answer two of them, but no more.

Question No. 1.

Smith, Hill and Davis engage in business under an agreement that Smith is to have a salary of 200.00; Hill, $150.00; and Davis, $100.00 per month, respectively; that the earnings are to be determined at any time at the request of any partner and the profits divided on a basis of the amount of business secured by each. They are in business nine months and find their accounts as follows:

Smith's business	$4,500.00
Hill's business	2,800.00
Davis' business	3,000.00
Net profits	2,100.00

They then decide to rescind the salary agreement and divide the profits shown on a basis of amount of business secured individually, treating the salary drawn as an advance.

You find errors during the nine months period, namely:

Office furniture, charged to operation	$65.00
Accounts Receivable, Smith's business, uncollectible	210.00
Funds advanced by Davis, credited to his earning account	400.00

Items not yet paid nor entered into accounts:

Smith's salary	$200.00
Hill's salary	150.00
Advertising	27.50
Clerk hire	130.00
Telephone	6.00
Rent	50.00
Stationery expense	15.00

Show the journal entries necessary to readjust the accounts; make a statement of the Profit and Loss account and each partner's personal account, showing all corrections.

Question No. 2.

The A. B. Corporation has a dispute with its agents C and D, regarding the amount due from the agency account, and asks you to state the account, which all agree to accept as a basis of settlement. On the books of C and D you find three accounts with the A. B. Corporation as follows:

OLD ACCOUNT

May 14, 1908..........	$2,500.00	April 1, 1908..........	$59,141.49
June 19, 1908..........	13,582.00	May 5, 1908..........	19,434.05
July 15, 1908..........	28,781.37	June 5, 1909..........	7.50
		Dec. 31, 1909..........	5,756.06

NEW ACCOUNT

April 6, 1909..........	$4,976.50	May 3, 1909..........	$10,000.00
April 17, 1909..........	3,219.86	May 18, 1909..........	17,000.00
April 19, 1909..........	7,111.65	May 18, 1909..........	184.66
April 24, 1909..........	6,293.21	June 10, 1909..........	10,000.00
April 29, 1909..........	4,915.91	June 20, 1909..........	6,500.00
May 17, 1909..........	3,219.73	June 20, 1909..........	318.44
May 20, 1909..........	4,071.11	July 10, 1909..........	700.00
June 8, 1909..........	1,895.19	July 10, 1909..........	43.71
June 12, 1909..........	3,434.26	Aug. 10, 1909..........	7,500.00
June 19, 1909..........	2,699.28	Sept. 20, 1909..........	10,000.00
June 24, 1909..........	4,115.22	Oct. 11, 1909..........	606.90
Aug. 1, 1909..........	2,573.82	Nov. 5, 1909..........	5,000.00
Aug. 5, 1909..........	3,089.74	Dec. 10, 1909..........	3,500.00
Sept. 15, 1909..........	1,576.74		
Sept. 18, 1909..........	2,429.05		
Sept. 29, 1909..........	5,472.82		
Nov. 1, 1909..........	2,338.20		
Nov. 3, 1909..........	2,222.18		
Dec. 17, 1909..........	2,927.54		

Jan.	3, 1910..........	$1,782.90	Jan.	15, 1910..........	$10,000.00
Jan.	7, 1910..........	2,089.11	Jan.	25, 1910..........	2,500.00
Jan.	13, 1910..........	1,016.01	Jan.	31, 1910..........	80.44
Jan.	26, 1910..........	4,540.13	Feb.	1, 1910..........	5,000.00
Jan.	28, 1910..........	2,708.68	Feb.	3, 1910..........	123.22
Feb.	15, 1910..........	4,817.71	Feb.	15, 1910..........	4,000.00
Feb.	18, 1910..........	795.31	Feb.	15, 1910..........	97.88
Feb.	20, 1910..........	3,212.50	Mar.	31, 1910..........	4,000.00
Mar.	18, 1910..........	1,834.11	Mar.	31, 1910..........	20.55
Mar.	26, 1910..........	1,752.52	April	10, 1910..........	5,000.00
April	1, 1910..........	1,919.19	April	30, 1910..........	5,000.00
April	9, 1910..........	1,786.54	May	20, 1910..........	7,500.00
April	15, 1910..........	2,447.83	May	20, 1910..........	36.45
April	24, 1910..........	3,584.32	June	10, 1910..........	5,000.00
April	24, 1910..........	138.32	June	30, 1910..........	4,000.00
May	15, 1910..........	3,497.86	June	30, 1910..........	164.06
May	20, 1910..........	3,690.43	July	1, 1910..........	7,500.00
June	3, 1910..........	1,477.66	July	24, 1910..........	5,000.00
June	9, 1910..........	1,548.29	Aug.	1, 1910..........	5,000.00
June	15, 1910..........	2,180.75	Aug.	20, 1910..........	4,500.00
June	30, 1910..........	3,844.22	Aug.	31, 1910..........	102.92
July	16, 1910..........	4,571.59	Sept.	20, 1910..........	8,000.00
July	23, 1910..........	2,085.79	Oct.	10, 1910..........	2,000.00
July	28, 1910..........	1,787.22	Oct.	10, 1910..........	5,000.00
July	29, 1910..........	3,970.87	Oct.	10, 1910..........	239.81
Aug.	1, 1910..........	2,226.69	Nov.	3, 1910..........	6,000.00
Aug.	7, 1910..........	1,001.04	Nov.	3, 1910..........	172.72
Aug.	14, 1910..........	3,112.05	Nov.	17, 1910..........	5,000.00
Aug.	15, 1910..........	2,026.69	Nov.	30, 1910..........	27.45
Aug.	22, 1910..........	1,138.74			
Sept.	5, 1910..........	1,173.08			
Sept.	7, 1910..........	2,003.77			
Sept.	17, 1910..........	1,933.39			
Sept.	21, 1910..........	1,552.70			
Sept.	23, 1910..........	1,273.12			
Oct.	9, 1910..........	1,284.72			
Oct.	15, 1910..........	2,965.19			
Oct.	25, 1910..........	2,829.99			
Nov.	1, 1910..........	3,149.81			
Nov.	7, 1910..........	3,288.62			
Nov.	16, 1910..........	2,091.50			
Nov.	19, 1910..........	1,082.16			
Nov.	22, 1910..........	1,279.80			

INTEREST ACCOUNT

April	1909..........	$185.65	Jan.	1910..........	$376.32
April	1909..........	82.90	Jan.	1910..........	324.58
May	1909..........	1,733.68	Feb.	1910..........	100.00
June	1909..........	642.25	Feb.	1910..........	286.35
July	1909..........	527.28	Mar.	1910..........	1,213.94
July	1909..........	1,455.13	April	1910..........	203.23
July	1909..........	1,019.71	April	1910..........	224.00
Aug.	1909..........	89.56	May	1910..........	1,000.00
Aug.	1909..........	199.61	May	1910..........	436.25
Sept.	1909..........	1,647.29	June	1910..........	339.31
Oct.	1909..........	193.21	July	1910..........	467.22
Oct.	1909..........	317.77	July	1910..........	224.67
Oct.	1909..........	103.82	July	1910..........	245.93
Nov.	1909..........	1,264.17	Aug.	1910..........	213.33
Dec.	1909..........	686.68	Sept.	1910..........	1,183.59
Jan.	1910..........	228.92	Oct.	1910..........	221.63
Jan.	1910..........	814.30	Nov.	1910..........	377.31

Prepare a comprehensive monthly statement of the account, combining the three separate ledger accounts, adding interest (computed on monthly balances) for any year or parts of a year for the period April 1, 1908, to Nov. 30, 1910.

Question No. 3.

The Boulevard Land Corporation is organized in your home city for the purpose of acquiring 100 acres of land, having same laid off into suitable lots for residential property.

The Company is capitalized at $25,000.00, which stock is taken in equal amounts and paid for by 10 stockholders. The property is purchased for $35,000.00; a first mortgage being accepted for $15,000.00 and the balance $20,000.00 paid in cash, the remaining $5,000.00 derived from sale of capital stock being used to advertise and pay expenses of putting the property on the market.

There is a release clause in the mortgage providing that all owners of lots on the boulevard can obtain clear title by paying $25.00 per front foot to the mortgagee, all other lot's being released at rate of $15.00 per front foot.

The stockholders decided to reserve 10 lots 50 feet in width, facing the boulevard for their own use; each stockholder drawing a lot number from a hat to ascertain which one of the ten should belong to him.

A and B are engaged in the real estate business and are also stockholders in this corporation, and by vote of the stockholders are appointed the general sales agents for the Boulevard Land Corporation.

In making an audit of the accounts you find that the company has paid $9,500.00 in releases; $7,000.00 to release lots purchased by out-

siders and $2,500.00 to pay for the release of free lots drawn by A and B as stockholders. Would you have any comment to make regarding this or any adjustments to make in the accounts? Explain in detail.

Question No. 4.

On account of the inability to make collections or to borrow funds, Johnson, Jones and Jacobs are forced into bankruptcy. Their statement to the receiver is as follows:

Assets		
Property, consisting of factory and land	$37,500.00	
Machinery	12,800.00	
Office furniture and fixtures	1,250.00	
Cash on hand and in bank	900.00	
Stock on hand, raw goods	5,000.00	
Stock on hand, finished for sale	10,000.00	
Accounts receivable	20,000.00	$87,450.00
Liabilities		
Mortgage on property and plant	$40,000.00	
Bills payable	25,000.00	
Accounts payable	15,000.00	
Surplus	7,450.00	$87,450.00

What accounts would you transfer to the receiver?

Open a proper set of books for the receiver covering this business.

Question No. 5.

B dies March 23, 1905, leaving an estate consisting of the following property in charge of his executors, X, Y and Z:

Cash in bank	$10,000.00

Accounts receivable from:

1	$2,000.00
2	3,000.00
3	1,000.00
4	3,000.00
5	1,000.00
6	4,000.00
7	2,000.00
8	3,000.00
9	4,000.00
10	1,000.00
	$24,000.00

Stocks and bonds:

1. 100 shares Union Bank (par value, $100.00)	$12,000.00
2. 40 shares Traders Bank (par value, $100.00)	12,000.00
3. $1,000.00 C. & O. 4's—J. & J.	1,050.00
4. $5,000.00 P. R. R. 6's—M. & S.	4,500.00
5. $10,000.00 N. Y. C. 3½'s—J. & J.	10,450.00
	$40,000.00

and three parcels of unimproved real estate.

Three of his heirs are also indebted to him for money loaned:

C.	$5,000.00
D.	6,000.00
E.	7,000.00
	$18,000.00

The will directs the executors to dispose of the real estate, convert the other assets and distribute the funds, to wit:

Widow		one-half
Children	C.	one-sixth each
	D.	
	E.	

Up to April 30, 1906, the executors collect all the accounts receivable with the exception of items No. 3, No. 6 and No. 10, on which they realized only $4,500.00, the balance being uncollectible.

Bonds No. 3 and No. 5 matured January 1, 1906, and bond No. 4 matured March 1, 1906, and were redeemed at par. Stock No. 2 is sold at $325.00 and stock No. 1 at $125.00, both sales taking place on April 15, 1905.

The real estate is sold for cash, $5,000.00; and mortgages $10,000.00.

Interest has been received on bank balances, $300.00; accounts receivable, $50.00; and on each of the bonds at the regular interest periods in full:

The executors pay decedent's debts and funeral expenses, $1,000.00. Counsel fees, $500.00; safe deposit box rent, $10.00; and office expenses incident to collection of income, $500.00. The executors waive their claim to commissions, but ask for an allowance to cover expenses incurred by them of $75.00 each.

State the executors' first and final account and prepare a statement for the purpose of guiding the court in directing a distribution to be made to the heirs.

Intermediate and Final Examinations of the Institute of Chartered Accountants, Held During November and December, 1910.

Bookkeeping and Accounts.

(Including Partnership Accounts.)

1. From the following combined trading and profit and loss accounts of a private firm for the year ending 31st December, 1908, and from the profits of the two previous years, show the amount upon which income tax (due January, 1910) should be paid:

Dr.	
To Stock	£1,200
" Purchases	8,500
" Wages	5,400
" Carriage	550
" Gas and Water, and Municipal Rates	260
" Salaries (Partners)	800
" Bad Debts written off	140
" Repairs to Buildings, cost	300
" Repairs and Renewals of Plant, cost	200
" Income Tax	101
" Interest on Capital	250
" Interest on Loan from Bankers	80
" Rent of Works charged at 6 per cent. on cost	300
" Profit	1,110
	£19,191
Cr.	
By Sales	£17,511
" Stock	1,600
" Rent from Property included in Works Assessment under Schedule A, at £300 gross	80
	£19,191

The amounts of the annual profits, upon which the previous assessment was made, were: for 1905, £2,450; for 1906, £2,950; for 1907, £2,700.

2. You are to be appointed auditor under a partnership deed. The draft articles of partnership are sent to you for your opinion and approval of

clauses affecting the accounts. What matters of account would you expect to be mentioned in the draft articles, and state shortly the objects of the clauses.

3. A trading company takes out a capital redemption policy with an insurance company to provide for a wasting asset, paying £80 per annum premium. The premium is to be provided out of revenue.

Give examples showing the entries to be made in the books of the trading company (1) annually, and (2) upon payment of the capital sum by the insurance company.

4. A. and B. carried on business in partnership and divided profits and losses in proportion to their capital, three-fifths and two-fifths. On 1st January, 1910, A.'s capital was £10,500 and B.'s £7,000, as shown by a balance sheet of that date. They agreed to admit C. as a partner from the same date on the following terms:

(1) The assets, liabilities, and capital to be taken as shown in the balance sheet.

(2) £2,500 to be added to the assets for goodwill.

(3) The amount of goodwill to be added to A.'s and B.'s capital in the proportions in which they divide profits.

(4) C. to pay to the partnership such a sum as will give him one-fifth share in the business.

State what amount of capital C. has to bring in; set out the capital account of each partner in the new partnership, and state in what proportions the profits will be divided in future, A. and B., as between themselves, sharing in the same proportions as before.

5. Herbert Smith and Ernest Jones are in partnership, sharing profits equally and having each a capital of £5,000. It is provided in the articles of partnership that a partner may retire upon giving certain notice to the other and that in the event of a partner retiring he shall be repaid his capital, proportionate share of profits to the date of dissolution, less his drawings—these profits to be taken on the basis of the average profits of the last three completed years, as stated in the balance sheet book signed by both partners—and in addition he shall be paid his share of the goodwill, viz., half the goodwill of the business. The goodwill to be considered equal to three times the average profits of the last three completed years.

The amount payable to Herbert Smith for capital, profits, less drawings and goodwill, is to be satisfied by giving six bills of equal amounts carrying interest at the rate of 5 per cent. per annum from 1st October, 1910.

The yearly accounts are made up to the 31st December, and Herbert Smith retires on 30th September, 1910.

The signed balance sheets show the following profits:

Year to 31st December, 1907	£10,000
" " " 1908	3,000
" " " 1909	2,300

Show what amount is due to Herbert Smith for capital, goodwill and profits, he having already drawn £500 on account of profits, and the amount of each bill with the interest thereon added to it.

7. Directors of a Limited Liability Company (having an authorized capital of £120,000) issue a prospectus inviting applications for 100,000 shares of £1 each, and stating that 10,000 shares will be issued in addition as fully paid to the vendor in part payment of purchase money.

2/6	per share	is payable	on application.
2/6	"	"	on allotment.
5/-	"	"	3 months after allotment.
10/-	"	"	6 " " "

The capital offered was over-subscribed by 10,000 (ten thousand) shares.

The amount due on allotment was received in full. The sum of £24,000 was received in respect to the first and £48,000 in respect to the second call.

The purchase money is stated to be £80,000, viz.:

Land and Buildings	£35,000
Stocks and Works in Progress	15,000
Machinery and Plant	20,000
Goodwill	10,000
	£80,000

Make the journal entries necessary to open the books of the company and to record the payment of the instalments, stating where the details of calls in arrear should be found.

8. You are asked to complete a balance sheet from books you were unable to balance.

What would you do with the difference in figures?

What are the dangers attending differences in figures?

9. The following was the balance sheet of a firm upon dissolution of partnership, A. retiring, B. continuing the business. The partners' shares as to capital and profits were: A., three-fourths; B., one-fourth.

Capital, A.	£9,000	Freehold	£12,000
Capital, B.	3,000	Debtors	3,000
Loan from A.	2,000	Cash	1,000
Creditors	1,800	Stock	1,000
Reserve	1,200		
	£17,000		£17,000

A. agreed to buy the freehold for £10,000.

The stock was taken over by B. at 10 per cent. discount.

The debtors realized 86 per cent. of their value.

The costs of the liquidation exclusive of the above deficiencies were £470.

What did each partner receive?

Show cash account, liquidation account, and the partners' accounts.

10. When preparing the annual accounts of a London firm having branches in New York and Brussels, state generally how you would deal in the London books with the balances appearing in the branch ledgers, and also how the question of the rate of exchange would affect the year's results.

Bookkeeping and Accounts.

(Including Executorship Accounts.)

1. Prepare journal entries to record the following transactions in the books of a limited company: 200 shares of £1 each, 15s. called up, and on which 5s. per share had been paid, were forfeited and subsequently sold to X. for £130, credited with 15s. per share paid up.

2. Prepare a balance sheet at 30th June, 1910, and profit and loss account for the year ended that date, of the Shop Company, Limited, from the following particulars, viz.:

The authorized share capital is 80,000 5 per cent. preference shares of £1 each, and 40,000 ordinary shares of £1 each, of which 60,000 preference and the whole of the ordinary shares have been issued and fully paid up.

Bills Receivable	£270
Bills Payable	150
Premises Depreciation Account	4,000
Cash at Bank and in Office	210
House and Office Furniture	400
Transfer Fees	20
Directors' Fees	600
Doubtful Debts Reserve	300
Bank Charges and Interest	250
Stock at 30th June, 1910	28,500
Bank Loan	3,000
Law Costs	200
Trade Debtors	13,000
Office Expenses, Rent, Salaries, Audit Fee, etc	2,970
Change Cash at Shops	250

Reserve	1,200
Rents, Insurance, etc., paid in advance	650
Trade Creditors	12,500
Profit and Loss Account, Credit Balance at 1st July, 1909	850
Freehold and Leasehold Premises	85,000
Sundry Creditors	280
Horses, Carts, Vans, etc.	2,000
Trading Account (Profit)	12,000
Bills Receivable under discount	270

Provide 10 per cent. depreciation on house and office furniture and on horses, carts, vans, etc. Make a further reserve of £300 for doubtful debts and increase premises depreciation account and reserve account by £1,000 each.

What will be the balance of profit to carry forward after providing for the payment of the preference dividend and a dividend of 5½ per cent. on the ordinary shares?

3. Journalize the following transactions of a limited company:

The company was registered on the 1st January, 1908, with a nominal capital of £120,000, divided into 120,000 shares of £1 each, of which 40,000 were issued as fully paid to the vendor as part purchase consideration, 40,000 offered for subscription to provide working capital, payable as to 5s. per share on application, 5s. per share on allotment, and the remainder in two calls of 5s. each; 40,000 shares to be held in reserve for future issue. The vendor also received £10,000 in 5 per cent. debentures, being the balance of the purchase consideration.

1908.

January 5—Applications were received for 35,000 shares.

" 6—Allotment made of 35,000 shares.

" 10—Amount due on allotment of 35,000 shares was received.

February 10—First call of 5s. per share was made payable on the 24th February.

" 10—40,000 fully paid shares allotted to vendor.

" 10—5 per cent. debentures issued to vendor for £10,000, balance of purchase money.

4. State briefly the principles governing cost accounts, and give a form of cost sheet suitable for a manufacturing business, entering not less than six items of cost relating thereto.

5. John Jones died on the 30th April, 1910, leaving the following estate:

Cash in House	£27
Cash on Deposit at Bank	5,000
Cash on Current Account at Bankers	550
Household Furniture, valued at	2,000

Mortgage at 4 per cent. of leasehold premises to secure £4,000. Six months' interest fell due on the 30th June, 1910.	
£8,000 Consols, 2½ per cent.	6,400
£4,000 Japanese 4 per cent. Loan	3,700
Half-years' interest payable on the 30th June, 1910.	
Debts Due to Testator	1,900
Life Policies and Bonuses	6,000
Sundry Creditors	100

You are required to write up the books and to make out a balance sheet at the 31st October, 1910, ignoring income tax and interest on bank deposit.

The widow was to have the use of the furniture for life and an immediate legacy of £1,000, which was promptly paid.

Funeral expenses and testamentary expenses amounting to £75 and £1,500, respectively, had been paid, and the liabilities discharged before the 31st October.

The life assurance moneys had been received, as also all interest due on investments, and the debts had been collected, with the exception of £150, which had proved bad.

6. Explain the difference between a trading account and a profit and loss account, and state in which account you would place the following items, giving your reasons:

Purchases.	Advertising.
Carriage and Freight.	Sales.
Debenture Interest.	Stocks on Hand.
Depreciation.	Returns.
Allowances.	Discounts.
Bad Debts.	Fuel.
Wages.	Packages.
Commission.	Directors' Fees.

7. From the following items, appearing in the trial balance of the books of a company at the close of its financial year, prepare a profit and loss account, giving effect to the further remuneration of the directors as mentioned below:

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Directors' Fees	2,000	0	0			
Rent	500	0	0			
Salaries	350	0	0			
Law Charges	50	0	0			
Ore Sales				40,500	0	0
Advertising	25	0	0			
Interest				420	10	0

	Dr. £ s. d.	Cr. £ s. d.
Transfer Fees		19 10 0
Income Tax	700 0 0	
Depreciation	300 0 0	
Audit Fee	40 0 0	
Sundry Expenses	155 0 0	

The directors are entitled, under the articles of association, to appropriate and apply, by way of further remuneration, in any year in which a dividend is payable (assume the payment of a dividend), a sum equal to 5 per cent. upon the amount of the profits for each year.

8. J. B. died on the 31st May, 1909, possessed of 500 5 per cent. cumulative preference shares of £5 each in Robinson's Brewery Company, Lim., upon which dividends for two years were in arrear. On the 30th June, 1909, the company declared dividends sufficient to pay the preference shareholders for the year ended 30th April, 1909, with arrears. How would you deal with these dividends in the executors' accounts?

9. A limited company goes into voluntary liquidation on the 31st December, 1909, having assets appearing in the books as follows:

Works and Other Properties	£90,000
Liquid Assets	10,000

Its liabilities are £20,000, and its capital (paid up) £100,000. The assets are sold to a new company for £50,000, payable in shares of that company of £1 each, credited with 15s. per share paid up, and £22,000 in cash, which latter just suffices to pay the liabilities and costs of liquidation. Close the books of the company in liquidation.

10. The undermentioned errors were discovered in the books of J. Johnson & Co., affecting the year ended 30th June, 1910:

1910.

(1) April 20—A cheque received from W. Brown for £11 was posted to his credit as 11s.

(2) May 31—A sale of £26 10s. was credited correctly but debited to the customer's account as £20 6s. 10d.

(3) June 20—Goods were returned by R. Carr of the invoice value of £27 10s., and were taken into stock at £25, but returns were not entered in the books until the following month.

(4) June 29—The acceptance of Badart Freres to Johnson & Co.'s draft for £220, payable in Paris and which had been discounted, was dishonored. The acceptance was worthless and the bankers debited Johnson & Co.'s account on the 1st July, 1910.

Show how the adjusting entries should be made in J. Johnson & Co.'s books at the 30th June, 1910.

Auditing.

1. A special form of accounts is prescribed by statute for:
   (a) Railway Companies.
   (b) Gas Companies.
   (c) Building Societies.
Give three salient features out of each form as prescribed.

2. In auditing the accounts of a trading undertaking you find that an account is kept in a private ledger for the bought ledger and also for the sold ledger. Both of these accounts are in agreement with the total balances as abstracted in detail from the bought and sold ledgers respectively.

You are not required to check the postings of the individual entries in the subsidiary ledgers, but apart from this you are asked to take such action as shall in your opinion be a check against possible fraud. Set out the work which you would recommend should be done.

3. The A. B. Company make up their accounts to 31st December, 1908. The demand note for income tax for the year ending 5th April, 1909, has been received as follows:

		£	s.	d.
Schedule A.	Property held on lease at £600 per annum..........	25	0	0
Schedule D.	Assessment, £15,640..................................	782	0	0
Schedule E.	Directors..	50	0	0

The following payments have been made, all less income tax:
- Rent on each quarter-day, four quarters to Christmas, 1908.
- Directors' fees, £1,000. One year to 31st December, 1908.
- Debenture interest at 5 per cent. per annum on £50,000, paid 30th June and 31st December, 1908.
- Interim dividend, 4 per cent., to 30th June, paid 31st August, 1908, on £100,000 ordinary share capital.
- It is proposed to pay a final dividend of 5 per cent., less income tax, on 28th February, 1909.

Set out in ledger form the account with the Income Tax Commissioners on 31st December, 1908, as you would desire it to be stated.

4. The balance sheet of a company of which you are the auditor contains "*inter alia*" the following entries when presented to you:

Dr.	Debentures at 4 per cent..		£30,000
	Sundry Creditors:		
	Trade Accounts....................................	£12,000	
	Loan "	5,000	
	Bank Loan	7,500	
			24,500
Cr.	Investment in Government and other securities.....		14,240

You ascertain the following facts: The debentures are part of an authorized issue of £40,000.

The investments consist of the following securities:

Consols, £3,000 stock at 80	£2,400
India 3½ per cent. £2,000 stock at 92	1,840
The Quick-Burst Gold Mining Company, Lim., 10,000 ordinary shares of £1 each (quoted at 1s. 6d. per share), cost	10,000
	£14,240

The bank holds as security the India stock and £5,000 debentures, additional to the £30,000 shown on the balance sheet.

An undertaking has been given by the company to the loan creditor to issue £5,000 debentures to him if called for.

State what additions or amendments in the balance sheet in respect of the items stated you would desire and your reasons in each case.

5. The premises of a trading company are held on lease for thirty years. They were acquired at a premium and large sums have been expended on additions and improvements. In the first ten years considerable sums have been set aside in the accounts for leasehold redemption before disclosing to the shareholders the profits of each year, and the total amount so provided to 31st December, 1908, is largely in excess of the amount necessary to write off the leasehold asset proportionately during the thirty years.

The eleventh year, 1909, is a bad year, the profits have declined, and to enable them to pay the customary dividend the directors determined to make no provision out of the profits of that year for leasehold depreciation.

State what you would do, as auditor, showing the form your action would take, and give the reasons for your procedure.

6. In auditing the accounts of a manufacturing business you are asked particularly to ascertain that all outstanding accounts have been brought in.

How would you satisfy yourself on this point as regards:

Wages?
Rates and Taxes?
Bought Accounts?

And state two other heads which you would investigate.

7. Give the form of report you would make to the members of a London limited company whose business is carried on abroad, and whose foreign accounts are audited and certified locally.

8. State briefly the difference in principle between the audit of the accounts of a private partnership and a limited company.

9. You are appointed auditor on the formation of a limited company, and are instructed to examine the books for the purpose of certifying the particulars required for the statutory report under the Companies Act, 1908. What steps would you take to enable you to give the necessary certificate in respect of:

(a) Shares allotted by the company.
(b) Cash received in respect of such shares.

10. On the formation of a limited company to take over an established business it frequently happens that a considerable sum is paid for the goodwill.

Give an instance where you would consider it necessary that yearly provision should be made out of profits to extinguish the asset, and a further instance where you would consider such a course unnecessary, and state your reasons.

Final Examination, November-December, 1910.

Bookkeeping and Accounts.

(Including Executorship Accounts.)

1. J. Smith's balance sheet showed the following assets and liabilities:

Land and Buildings	£150,000
Stock	100,000
Work in Progress	43,000
Sundry Debtors	55,000
Patent Rights	8,000
Cash in Bank	5,000
Sundry Creditors	50,000
Sundry Bills Payable	6,000

A limited company (J. Smith, Sons & Co., Lim.) was formed to purchase the business for the sum of £350,000, payable as to £100,000 in ordinary shares, £100,000 in preference shares, £100,000 in 4½ per cent. debentures, and the balance in cash, the company agreeing to take over the assets of J. Smith (with the exception of the bank balance) and the liabilities to creditors.

The registered capital of the company was £400,000, divided into 250,000 ordinary and 150,000 preference shares of £1 each.

Fifty thousand ordinary shares and the balance of the preference shares were issued for subscription by the public, payable 5s. per share on application, 5s. per share on allotment and 10s. per share one month after allotment.

The issued capital was fully subscribed, and the shares (including the vendor's shares) and the debentures were allotted by the company on 1st March, 1910.

By the 30th June all moneys due thereon had been received by the company except the amounts due on allotment and call accounts in respect of 200 ordinary shares and 100 preference shares, and the directors had discharged the company's cash indebtedness to the vendor, paid the preliminary expenses of £5,000, and declared the shares forfeited upon which allotment and calls were in arrear.

Give the entries which should appear to record these transactions (in totals) in the company's journal, cash book and ledger.

2. A. Andrews & Co., of London, consign goods to the value of £2,000 to their agent, B. Bengalee, in Bombay, and draw on him for £1,500 at three months, discounting the bill at the National Provincial Bank for £1,485.

The charges for insurance, freight, etc., paid by A. Andrews & Co. amounted to £70.

In due course B. Bengalee rendered an account sales to A. Andrews & Co. for £2,500, less commission, etc., £85, enclosing a sight draft for the balance.

Record these transactions in A. Andrews & Co.'s books.

3. "A." and "B." are in partnership as brewers, and the amount of their assessment under Schedule D for 1910-11 has been fixed by the surveyor at £1,222 (£1,240, less allowance for wear and tear, £18).

The surveyor has disallowed compensation fund charges, £36.

"A.," on behalf of the firm, has made a return as under:

Profits of Trade		£1,186
Less Interest on Mortgages (gross)		438
		£748
"A.'s" Share (one-half)	£374	
"B.'s" Share (one-half)	374	
		£748

The separate returns of the partners for purposes of securing abatements were as follows:

	A.	B.
Profits of Trade	£374	£374
From Property (half each of the Schedule A Assessments of the licensed properties)	119	119
Share Dividends (gross) already taxed	15	Nil.
	£508	£493

"A." and "B." have appealed against the assessment made.

Show the amount of the firm's ultimate assessment and the total amount of tax payable.

(1) Assuming the compensation fund charges are allowed on appeal;

(2) Assuming the compensation fund charges are not allowed on appeal.

4. On 31st December, 1909, the trial balance of the Motor Engineering Company, Lim., was as under:

5,000 Ordinary Shares of £1 each		£5,000
100 5 per cent. Debentures of £10 each		1,000
Goodwill	£2,000	
Freehold Property	1,500	
Machinery and Tools	100	
Fixtures and Fittings	20	
Hire Cars	500	
Sundry Debtors	2,500	
Stock of Accessories, Tires, Petrol, Oil, etc., 31st December, 1909	250	
Cash at Bank	1,055	
Sundry Creditors		153
Reserve for Bad Debts, 31st December, 1908		80
Accessories, including Tires and Tubes (used)	2,000	
Petrol, Oil, etc. (used)	550	
Cost of Repairing Cars (Wages and Materials)	750	
Charges to Customers for Repairing Cars		800
Expenses of Hire Cars	200	
Wages (Yardmen, etc.)	120	
Charges to Customers for Hire Cars		330
Sales of Accessories, including Tires and Tubes		2,650
Cars Purchased for Resale	11,000	
Sales of Petrol, Oil, etc.		750
Sundry Receipts (Washing Cars, Charging Batteries, etc.)		85
Car Sales		12,000
Management Expenses	450	
Garage Rents		45
Repairs, Plant, etc.	18	
Bad Debts written off	50	
Carriage on Cars Sold	80	
Debenture Interest to 31st December, 1909	50	
Ordinary Share Dividend to 31st December, 1908	500	
Profit and Loss Account (Balance, 31st December, 1908)		800
	£23,693	£23,693

Depreciation is to be written off machinery and tools at the rate of 20 per cent., fixtures and fittings 10 per cent., hire cars 25 per cent.

The reserve for bad debts is to be increased to 5 per cent. on the sundry debtors and 25 per cent. of the net profit for the year is to be reserved for commission to the manager.

Prepare complete accounts in the form which, in your opinion, is calculated to give the greatest amount of information to the directors as to the working results of the business at a glance.

5. X. died on 31st May, 1909, possessed of the following estate:

Assets.

Freehold Property (let at £600 per annum, payable quarterly, Rent received to 25th March, 1909)	£12,000
Life Policies and Bonuses	2,500
Cash at Capital and Counties Bank	10,000
Cash in House	25
Household Furniture and Effects	1,000
4% Debentures (interest payable June and December, interest received to 31st December, 1908)	4,500
Capital in X., Y. and Z.	15,000
Share of Profits in X., Y. and Z. to date of death	500

Liabilities.

Debts due at death	£600
Mortgage on Freehold Property (interest at 4 per cent., payable on usual quarter days, has been paid up to 25th March, 1909)	3,000

By his will X. left his property as under:

To his wife A. (an executrix) £50 in cash, his household furniture and effects (both free of duty), and the income from the residue of his estate during her lifetime.

To his son B. (an executor) £50 in cash and his freehold property, both free of legacy and succession duty.

To his friend C. (an executor) £50 in cash, £500 "Consols standing in my name at the Bank of England," and £250, "part of my deposit at Paris Bank."

To his son D. the capital in the business of X., Y. and Z., free of duty.

To his daughter E. £5,000 free of duty and the residue of his estate on the death of her mother.

On 31st August, 1909, the executors obtained probate, paid the estate duty, the funeral expenses (£80), the debts due at the death and the executorship expenses (£177 8s).

On 29th September, 1909, the mortgage on the freehold property was paid off by the executors, together with interest to date. The legacies and the devise were satisfied and the duties thereon paid.

Assume that the assets realized the amounts stated, the debentures being sold on 31st December, 1909, that all income due to the estate has been

received, and that on 1st January, 1910, the residue of the estate was placed on deposit at the bank at 3 per cent. interest, write up the executors' cash book for the year ended 31st May, 1910, set out the estate account and the legacy account as they should appear in the executors' ledger, and prepare an income account for the year and a balance sheet.

N. B.—Income tax is to be ignored, and interest and apportionments may be calculated in months.

6. May a trustee legally carry on the business of a testator? If so, under what circumstances, and what are his liabilities?

7. A testator with an ample estate, left for the most part upon trust for many years, gave an annuity to a stranger in blood without any specific instructions as to the funds which were to provide such annuity.

State the different ways in which the trustees may provide for the payment of this annuity.

What duty is payable, and at what rate? How is the amount of duty arrived at, and how may it be paid?

8. "A.," the sole executrix of a deceased testator, "B.," whose will contained no instructions as to the investment of his estate, was entitled to the whole income of the estate for her life only.

Amongst the assets were a property held on a long lease, valued at the date of death at £1,000, and a mortgage of £2,000 on a freehold property.

The executrix allowed these investments to remain unchanged and continued to receive and devote to her own purposes the whole of the income arising therefrom.

Eventually the mortgagor of the freehold property became bankrupt, the executrix foreclosed, and for some years received the rentals. These did not, however, suffice to cover the interest on the original mortgage, which at the date of the death of the executrix was £150 in arrear.

Both properties were then sold by the persons entitled to the capital of the estate, the leasehold property realizing £500 net and the freehold property £1,800.

How is the loss on these two properties apportioned between "A.'s" estate and "B.'s" estate?

9. John Jones' profits for the five years ended 30th April, 1909, properly assessable for payment of income tax (after allowance of £120 in each year for schedule A assessment of his business premises) were as under:

Year ended 30th April, 1905	£5,700
" " " " 1906	5,500
" " " " 1907	4,700
" " " " 1908	4,100
" " " " 1909	3,500

As a director of a limited company John Jones has received £150 in each of the five years.

He owns house property, the gross rentals of which amount to £450, which are assessed under schedule A at £300 net.

His wife has a private income (taxed at its source) of £500 per annum.

He pays life insurance premiums upon his own life, amounting to £250 per annum.

State the amount of John Jones' total liability for income tax under the various schedules for the year ended 5th April, 1910, and the figures you employ to arrive at your results.

10. In what cases is "settlement estate duty" payable? To what account would you charge the duty in the trustee's books, how would it appear in the annual balance sheet, and by whom would it it eventually be borne?

Bookkeeping and Accounts.

(Including Partnership Accounts.)

1. A. and B. carried on business as pottery manufacturers at Hanley, under the style of A., B. & Co. They dissolved partnership on 31st March, 1909, A. retiring from the business and B. continuing to carry it on under the same style and purchasing A.'s share therein at the amount shown as his capital at 31st March, 1909, after a proper revaluation of the assets.

The firm's balance sheet at December 31st, 1908, was as follows:

Liabilities.		*Assets.*	
Sundry Creditors...........	£5,000	Land and Buildings.......	£10,000
Bills Payable...............	1,500	Plant and Machinery......	6,000
Mortgage on Land and Buildings at 4 per cent..	7,500	Loose Plant and Tools.....	3,000
A., Capital.................	14,500	Stock-in-Trade	9,000
B., "	9,500	Sundry Debtors after providing for Bad Debts and Discounts...........	7,500
		Bills Receivable...........	1,000
		Cash in hand and at Bank.	1,500
	£38,000		£38,000

Profits and losses both of revenue and capital were divided in the proportion of A., two-thirds, and B., one-third.

The revaluations at 31st March resulted as follows: Land and buildings, £9,100; plant and machinery, £5,600; loose plant and tools, £3,500; stock-in-trade, £8,000.

The other assets at that date were agreed as follows: Sundry debtors (after providing for bad debts and discounts), £8,500; bills receivable, £600; cash in hand and at bank, £2,000.

The liabilities were: Loan on mortgage at 4 per cent., £7,500 (interest paid to 31st December, 1908); bills payable, £1,000; sundry crditors, £3,500.

Make out the necessary adjustment accounts and balance sheet at 31st March, 1909.

2. What steps must A., the person referred to in the previous question, take to secure himself from all risk of being held liable for any of the debts of the firm contracted after his retirement?

3. How would you treat foreign branch account in the following cases?

(1) Where the rate of exchange is stable.

(2) Where the rate of exchange is fluctuating.

Explain on what basis you would incorporate the accounts of the foreign branch in the head office books, taking France as an example of a stable rate and Brazil as an example of a fluctuating one.

4. Henry Wilson sold his business to a limited company, but agreed to serve the company as manager for a period of ten years. The directors, in order to protect the company in some measure against loss in the event of the death of Henry Wilson, decided to insure his life for £10,000, without profits, payable at death or at the end of ten years. How should the annual premiums on the policy be treated in the accounts of the company? Give "*pro forma*" journal entries.

5. A., B., C. and D. carry on business in partnership as engineers and iron founders. They decide to convert their business into a private limited company as on 1st July, 1909. The firm's balance sheet at that date was as follows:

Liabilities.		*Assets.*	
Sundry Creditors	£7,000	Leasehold Premises	£15,000
Northern Bank, Lim.	3,000	Fixed Plant and Machinery	20,000
Capital A	25,000	Loose Plant and Tools	10,000
B	15,000	Sundry Debtors	7,000
C	10,000	Stock-in-Trade	12,000
D	10,000	Patterns, Trade Marks and Patents	5,000
		Cash in hand	1,000
	£70,000		£70,000

The company took over the business at the price of £66,000, and in addition paid the firm's liabilities.

The capital of the company is £100,000, divided into 35,000 6 per cent. cumulative preference shares of £1 each and 65,000 ordinary shares of £1 each.

The purchase price was discharged by the allotment to A. of 15,000 preference and 10,000 ordinary shares, to B. 15,000 ordinary shares, and to C. and D. each 10,000 ordinary shares, all fully paid. The balance of £6,000 was to be paid in cash and divided amongst A., B., C and D., in proportion to their respective capitals in the firm.

The above shares were duly allotted on first July, 1909, and on the same date 5,000 preference shares were allotted to E. and 5,000 to F., in pursuance of applications received from them, and A., B., C., D., E., F. and G., who had signed the memorandum of association for one share each, were ordered to be registered in the books of the company in respect thereof, and each of them paid up the £1 due thereon on the same day. On July 10th E. and F. both paid up for their preference shares in full, and on July 18th the balance of the purchase money was paid to the vendors.

Make the necessary entries in the company's journal and cash book in respect of the above transactions, and open and post up the vendors' account in the company's private ledger.

6. What do you understand by the term "Novation" as applied to partnerships? Explain fully what is necessary to constitute "Novation."

7. The City and Suburban Gas Company rebuild and re-equip part of their works at a cost of £50,000. The part of the old works thus superseded cost £30,000. The capacity of the new works is double that of the old. £2,000 is realized by the sale of old materials, and old materials valued at £1,000 are used in the reconstruction and included in the cost of £50,000 above mentioned. The cost of labor and materials is 10 per cent. higher now than when the old works were built.

Give the journal entries for recording the above transactions in the books of the company, showing particularly what amount you consider should be charged to capital expenditure and stating your reasons for your decision.

8. What is the Bankers' Clearing House? Explain shortly the system on which it is worked, taking for the sake of example four banks, A., B., C. and D.

9. Smith, Jones and Robinson are partners. Robinson has a salary of £200 per annum, and the profits of the firm after paying his salary are divided equally between Smith and Jones until they have received £500 each, after which the balance is divided equally amongst the three.

The profits of the firm for the year 1907 were agreed with the Surveyor of Taxes at £1,400, and for 1908 at £1,500.

For 1909 the profits after charging Robinson's salary were £800. Smith held £6,000 Midland Railway 3½ per cent. debenture stock, Jones owned

the house he lived in, which was assessed at £80 gross under schedule A. Robinson had no other source of income.

Smith's life assurance premiums amounted to £40, and Jones' to £30 per annum.

Prepare the firm's return for income tax and the partners' separate returns, claiming abatement and also relief in respect of earned income, and show what will be the amount the firm will have to pay income tax upon for the year 1910-1911.

10. What do you understand by the term, "On Cost"? Upon what basis or bases do you consider it should be calculated? Give your reasons.

Auditing.

1. As auditor to a limited company what evidence should you require as to the existence and value of the following assets?
   (1) Loose tools.
   (2) Patents.
   (3) £5,000 Chinese Bonds.
   (4) Loan secured by mortgage on freehold property.

2. Criticize from your standpoint, as auditor, the following items which appear in the published balance sheet of a company:

Liabilities.

Sundry balances and accounts not closed.............£1,074,488 16s. 11d.

Assets.

Cash at bankers, in hands of agents, and investments
(less acceptances).................................£2,679,274 7s. 0d.

3. The following item appeared amongst the assets of a Colliery Company, of which you are the auditor:

Short workings.............................£2,686

Explain its meaning, and state whether and on what conditions you would allow it to be treated as an asset.

4. The annual accounts of the Old Berkshire Bank, Lim., contain the following items:

(a) Cash in Bank of England............................	£560,254
(b) Cash in hand (including £10,000 in the Company's own notes)	472,124
(c) Money at Call and short Notice........................	721,560
(d) Rebate on Bills not due..............................	5,420

To what investigation should you, as auditor, submit the above items?

5. What is the difference in principle between the balance of the capital account of a British railway company as shown in the statutory form of accounts and the statement of capital account of a limited company as shown in the annual balance sheet? State briefly your duties as auditor in each case with reference to such accounts.

6. Give four examples of "closing entries" which you, as auditor of a firm, would expect to find in the journal at the annual audit, and state your duties with regard to them.

7. As auditor of a registered building society you are required to certify that, at the audit, you "have actually inspected the mortgage deeds and other securities" for loans granted by the society. To what extent should your inspection go so as to cover your responsibility?

8. Goodwill for a large amount appears amongst the assets of the Barchester Brewery Company, Lim., a company formed during the brewery "Boom." The profits of the company have gradually decreased during the past few years, and, in the years ended June 30th, 1908 and 1909, while the dividend was paid on the preference shares, no profits, were available for dividends on the ordinary shares. The balance at the credit of the profit and loss account for the year ended June 30th, 1910, was sufficient (after satisfying the preference shareholders to pay a dividend of 2½ per cent. on the ordinary shares. The directors were divided in opinion as to whether a dividend should be declared or the amount taken to the credit of the goodwill account. As auditor to the company you were called in to advise the directors. State briefly the views which you would have submitted to the board.

9. When auditing the books of a firm you find that no bill transactions are recorded in the firm's books until the bills have matured. Give your opinions upon this method, and show how the balance sheet of the firm would be affected.

10. In auditing the books and accounts of trustees under a will or settlement, what special matters have to come under your view that do not occur in the audit of a business concern, and how would you deal with them?

Practical Accounting—Part I.

Tuesday, June 27, 1911—1.15 to 4.15 P. M. only.

Answer two questions but no more. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (✓) the number of each one of the questions you have answered. Each complete answer will receive 25 credits. Papers entitled to 75 or more credits will be accepted.

1. The cost books of Factory A, the product of which is charged to the main office of the X. Y. Z. Co. at factory cost, show the following facts January 1, 1910:

Cash (imprest fund) $500; raw materials $17,688.51; wages unpaid and distributed $2,348.67; goods in process, at prime cost $62,258.61, plus $11,352.75 for general expenses and $9,007.50 for management charges; finished goods $45,290.20.

The invoices for purchases of raw materials for the year amounted to $78,375.65; wages paid $133,041.27; management charges $53,695; factory expenses $36,967.08. The cash receipts for one year's rent of loft were $1,200 and for 11 months' sale of power $330, the twelfth month being unpaid.

The raw materials consumed during the period amounted to $64,188.33; management charges distributed $55,761.90; factory expenses distributed to costs amounted to $43,033.23. There was also a loss on machinery replacements of $107.50.

The finished product output for the year amounted to $324,583.43, including all costs, and the transfers to the main office were $338,297.90.

At the close of the period December 31, 1910, there remained unpaid and undistributed to goods in process the regular factory pay roll for 3 days amounting to $2,857.93 and also 1,500 hours of operatives' overtime at an average rate of 45 cents per hour, payable on a basis of 2½ hours overtime as the equivalent of 3½ hours regular time.

Raise all the ledger accounts affected and show final trial balance.

2. A. contracts with a textile establishment to sell the mill's annual output on the following conditions:

The mill is to bill the output to A. at cost. A. is to finance the mill to the extent of 75% of cost on receipt of goods. The balance is to be remitted by A., as the various shipments are sold, less 5% and advances. At the end of a year an analysis of A.'s affairs reveals the following as shown by his books, the goods being sold at 10% profit above the factory cost. [Mill shipments $7,327,918.18.]

	Debits.	Credits.
Mill advances	$5,545,938	$5,000,000
Mill sales	6,400,000	7,840,710
Freight and cartage	90,000	80,000
Customers	7,840,710	7,632,200
Cash	7,610,200	5,635,938
Discounts	22,000	
Commission	....	320,000
Mill account	....	1,000,000
	$27,508,848	$27,508,848

Prepare A's financial statement.

3. Philip Jones, a citizen of New York State, died April 1, 1909, leaving a will appointing four executors. The will was probated May 1, 1909, showing the following bequests:

X. 1/3 share, B. 1/4 share, C. 5/12 of the entire estate after payment of funeral expenses, debts, etc., a specific bequest to the A. Hospital consisting of $20,000 and a parcel of improved property valued at $50,000.

The inventory filed by his executors was as follows: 5% mortgage for $40,000, interest payable semi-annually on June 30 and December 31; 500 shares common stock of Industrial Company, par value $100, appraised @ 110; 50 5% first mortgage bonds of A. Railway Company, par value $100, appraised @ 104, interest payable semi-annually on March 1 and September 1; accounts receivable valued at $20,000; cash in banks and on hand, $69,250; household furniture and effects appraised at $5,500.

The executor's transactions were as follows:

Cash Receipts.

500 shares of Industrial stock sold @ $115 per share.
45 first mortgage bonds sold July 1 @ 111 and accrued interest.
Accounts collected $18,500 (balance worthless).
6% dividend on Industrial stock declared May 1, 1909.
Interest on bank balances $1,300, of which $400 accrued prior to testator's death.
Interest on bonds and also on mortgage duly collected.
Rents collected $4,000, of which $1,500 accrued prior to death of testator.
The household furniture and effects were taken by X. at the appraised valuation.

Cash Payments.

Funeral expenses	$2,000
Expenses of probating will	335
General legal services	1,000
Rent of safe deposit vault	50
Care of cemetery lot, etc	500

Premium on executors' bonds	100
Stationery, postage, etc.	125
Debts of deceased	12,865
Taxes	1,025
X. on account of legacy	12,000
C. on account of legacy	20,000

The inventory on December 31, 1909, the date on which the executors wish to render an accounting, is as follows:

5% mortgage, $40,000.
Five 5% first mortgage bonds of A. Railway Company.
Interest on X.'s advances amounts to $350 and on C.'s advances $575.

Prepare (a) a summary statement separating principal and income, (b) a statement showing amounts due beneficiaries, (c) a statement showing the commission due executors.

Practical Accounting—Part II.

Wednesday, June 28, 1911—9.15 A. M. to 12.15 P. M., only.

Answer two questions but no more. Answers in excess of the numbers required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (✓) the number of each one of the questions you have answered. Each complete answer will receive 25 credits. Papers entitled to 75 or more credits will be accepted.

4. A stock brokerage firm composed of three partners agreed to dissolve December 31, 1910.

The original investments contributed January 2, 1910, were as follows: A., cash $100,000, B., cash $150,000, C., $40,000. C.'s capital account was credited with $80,000 and his seat in the Stock Exchange held by the firm as collateral for the same.

The partnership agreement recites the following facts: A. is allowed to withdraw $10,000 and charge same to expense, B. is allowed to withdraw $15,000 and charge same to expense, C. is allowed to withdraw $20,000 and charge same to expense.

Interest on partners' capital 5% per annum on original amount, profits or losses to be shared equally.

The interim transactions during the year as transcribed from the blotter were:

Purchases of 1,000 bonds, par value $1,000 each, for $1,005,000, maturing January 2, 1920.

Purchases of stocks for customers, long, 50,000 shares (par value $100) for $4,750,000.

Sales of stocks for customers, short, 50,000 shares (par value $100) for $4,625,000.

Margin received in cash from customers, long, $500,000.

Margin received in cash from customers, short, $500,000.

The following loans were made from banks on securities:

On bonds $750,000; interest paid in full to Dec. 31, 1910, $32,500.

On stocks $150,000; interest paid in full to Dec. 31, 1910, $6,000.

To complete transactions for account of customers all stocks were either borrowed or loaned.

The earnings comprised, commissions $175,000 received in full, interest receivable $85,000, of which $70,000 was collected.

The expenses were $62,500 (exclusive of partners' allowances or interest paid on capital), of which $2,500 remained unpaid at time of dissolution.

The partners had withdrawn as follows: A. $16,500, B. $18,750, C. $18,500. The market value of the bonds was $1,004,500. The Stock Exchange seat was finally sold to B. for $85,000, the profit therefrom reverting to the firm.

Prepare statements, prior to dissolution, showing (a) cash receipts and disbursements and balance on deposit in bank, (b) income and expenditures, (c) condition at time of dissolution, (d) partners' respective capital accounts.

5. The Prosperous Company is organized under the laws of the State of New York to conduct a manufacturing business. The authorized capital is $500,000, divided into $250,000 common and $250,000 preferred stock, par value of shares $100. Five incorporators subscribe each for one share of common stock at face value. John Peters, one of the incorporators, purchases from three manufacturing companies their complete plants for $499,500 and transfers said plants to the Prosperous Company for the remaining $499,500 of common and preferred stock and $100,000 of first mortgage 5% bonds out of a total issue of bonds amounting to $150,000, leaving $50,000 of bonds in the treasury. The incorporators then pay in cash for their respective subscriptions.

The individual assets acquired are as follows: land and buildings $75,000; plant and machinery $200,000; tools, equipment and fixtures $50,000; inventories $100,000; accounts receivable, good $28,000, doubtful $5,000; cash $12,000.

Prepare (a) opening entries for the books of the Prosperous Company, (b) initial balance sheet showing the company's financial condition.

6. From the following figures of net sales, costs and expenses prepare a statement, accounting for the shrinkage in profits in 1910 and showing in dollars and cents what portion of such shrinkage is due to decreased sales

and what portion is occasioned by the various variations in cost and expense items:

	1910.	1909.
Materials	$230,500	$265,335
Direct labor	78,500	108,228.75
Indirect labor	6,725	8,379
Factory expenses	27,500	26,999
Trading expenses	23,500	20,947.50
Office expenses	10,500	11,637.50
Net sales	$390,750	$465,500

N. B.—The solutions to questions 1, 3 and 5 appear in Part I as problems Nos. 38, 39 and 40.

Theory of Accounts.

Tuesday, June 27, 1911—9.15 A. M. to 12.15 P. M., only.

Answer 10 questions but no more, selecting at least two questions from each group. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (√) the number of each one of the questions you have answered. Each complete answer will receive 10 credits. Papers entitled to 75 or more credits will be accepted.

GROUP I.

1. What books of account do you consider necessary for the conduct of a small business? Describe their form and use.

2. What general order do you suggest for arranging the accounts when only one ledger is necessary for a moderate business?

3. Mention the different kinds of ledgers that you would install in a concern where the transactions were large and varied.

4. Describe fully the construction of a profit and loss account. What various meanings may its balance have and how should it be treated in different organizations under which business is conducted?

5. At the end of a fiscal year a concern inventoried its raw material at cost. Do you approve of this method? State your reasons fully.

GROUP II.

6. A corporation organized under the laws of the State of New York has a capital of $200,000, viz., 1,000 shares common and 1,000 shares preferred stock, par value $100 each. The patents were bought of the patentee for $50,000 common and $50,000 preferred stock. The patentee donated one half of each issue of his stock to the company for its use in securing additional capital. Show entries necessary to record these transactions and state what accounts you would set up in relation thereto.

7. A mining corporation has assets comprising among others leases, good will, patents, rent and royalties paid in advance. How would you deal with them in the profit and loss account and balance sheet?

8. The Hayward Company has declared a dividend of 10% on its capital stock of 100,000, payable July 1, 1910; stock books close on June 15, 1910. Describe the accounting procedure incident thereto and state who may participate in the dividends.

9. In closing the books of a corporation, how would you value goods consigned at selling prices to customers under an agreement by which consignees pay for goods as used?

10. The books of a corporation show balances at the debit or credit of the following accounts: rents from tenements, reserve for accounts receivable, depreciation on machinery, depreciation on furniture and fixtures, bond redemption account, bills receivable, dividend on preferred stock. State which should enter into profit and loss account and which should appear in balance sheet Why?

GROUP III.

11.. A fire insurance company's assets include stocks and bonds that it carries at market price regardless of cost. Is this in accordance with your views? Give reasons.

12. Describe the process of closing the books of a corporation at the end of its fiscal year, showing trading account and profit and loss account, caption and allocation being a prerequisite.

13. Describe the method of determining the number of shares of capital stock held by each of the several stockholders of a corporation, giving fully the titles of the books in which the facts are registered and stating how the books should be opened and operated.

14. A company leases for a term of 50 years certain unimproved property for factory purposes, paying a ground rent of $1,000 per year. The company erects certain buildings thereon for its own use at a cost of

$40,000, which are to become the the property of the owner at the expiration of the lease. State how you would treat this propositions in the company's books of account

15. The budget of a municipality includes appropriations for seven separate departments. Set up such accounts as you believe will cover the financial operations incident thereto, with supposed receipts and disbursements.

Auditing.

Wednesday, June 28, 1911—1.15 to 4.15 P. M., only.

Answer 10 questions but no more, selecting at least two questions from each group. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (√) the number of each one of the questions you have answered. Each complete answer will receive 10 credits. Papers entitled to 75 or more credits will be accepted.

GROUP I.

1. Define auditing.

2. If called on to verify the merchandise account of a manufacturing concern, what steps would you take to make the necessary investigation?

3. The cash of a concern had not been proved at any regular period and at the date of the audit the pass book had not been balanced with the bank. How would you proceed to prove the correctness of the cash balance as shown by the cash book?

4. What would be your procedure in examining the capital stock books of a corporation? What books would you require? Give reasons why such an audit may be necessary.

5. Give a brief report of the affairs of a small manufacturing concern. What points, in your opinion, call for special attention?

GROUP II.

6. In auditing the affairs of a railway company, how should the auditor determine whether or not the earnings are correctly stated?

7. An auditor who is employed to close the accounts of a firm and prepare a balance sheet finds that the current work is behind and that no trial balance has been effected for over a year. How should he proceed?

8. Describe the steps necessary to make a complete audit of a savings bank.

9. A company takes a large number of notes (bills receivable) from its customers and when in need of funds discounts or sells them. What accounts, if any, should appear to care for the contingent liability thus created to satisfy you as auditor?

10. Set forth in detail and in order of importance the instructions you would give an assistant in the audit of an electric railway, a bank, a stock broker.

GROUP III.

11. State in detail the successive steps to be taken in auditing the accounts of an executor of an estate.

12. Give examples of such assets and liabilities not usually found on books of account, as should be considered by the auditor when preparing an income and profit and loss account at the close of a fiscal period.

13. What method should an auditor employ in determining the value of stock, of accounts receivable, of additions to plant and property account?

14. What conditions would influence you in fixing the rate of depreciation on buildings, machinery and tools, fixtures and patterns?

15. Describe your mode of procedure in connection with some audit on which you have been engaged. Relate the nature of the business, answering in sufficient detail to enable the examiners to form an opinion regarding your knowledge.

Commercial Law.

Thursday, June 29, 1911—9.15 A. M. to 12.15 P. M., only.

Answer 10 questions but no more, selecting at least two questions from each group. Answers in excess of the number required will not be considered. Do not repeat questions but write answers only, designating by number as in question paper. Check (√) the number of each one of the questions you have answered. Each complete answer will receive 10 credits. Papers entitled to 75 or more credits will be accepted.

GROUP I.

1. Define (a) insurance, (b) insurer, (c) insured, (d) premium, (e) risk, (f) insurable interest.

2. Define the following: (a) agency, (b) guaranty, (c) artificial person, (d) legatee, (e) testator.

3. Define (a) partnership, (b) ostensible partner, (c) dormant partner, (d) corporation, (e) stockholder, (f) common stock, (g) preferred stock, (h) certificate of deposit.

4. Classify estates in land with respect to their duration and define each.

5. Define the following: (a) will, (b) abstract of title, (c) guardian, (d) trust, (e) certified check.

GROUP II.

6. State the steps necessary for the formation of a joint stock association. In what respects does it differ from an ordinary partnership and in what respects does it resemble a corporation?

7. What contracts, under the New York Statute of Frauds, must be in writing?

8. Who are common carriers under the New York law? State the liability of a common carrier at common law, under the New York law. To what extent can the carrier limit his liability under the latter law? To what special supervision, if any, are common carriers subjected?

9. Under the Negotiable Instruments Law what constitutes a sufficient presentment of a negotiable instrument for payment? Where should presentment be made? When may presentment be dispensed with? What constitutes a material alteration in a negotiable instrument?

10. Give the substance of the statute providing for the rendering of financial statements by a corporation to its stockholders.

GROUP III.

11. A., the owner of real estate, dies intestate, leaving no children, but three grandchildren, two of them children of a deceased son and the other the child of a deceased daughter. To whom does the real estate descend and in what proportion?

12. A. and B. are partners. If C. recovers a judgment against A, for a personal debt may a firm chattel be sold to satisfy this judgment? If so, what title would the purchaser at such sale acquire? Does he become a partner with B. and has he any rights as to an accounting from B?

13. A. owes B. money on a gambling debt. B. employs C. to collect the same, agreeing to pay him 25% of the amount collected. C. persuades A. to pay the debt, the total amount thereof going to B. in the first instance. Later, C. sues B. to recover his proportion for the collection. Will he succeed? Give reasons for your answer.

14. A bank certified a check that had been altered by changing the date, name of payee and by raising the amount, and the bank subsequently paid the same to the defendant. Subsequently thereto, the bank sued the defendant for the amount thus paid. Can it recover? Or does its certification of the check amount to a warranty of the genuinenesss of the body of the check as to payee or amount? Explain.

15. May a stockholedr object to an act of his corporation as *ultra vires* after he has acquired and accepted pecuniary benefit thereunder, when such act is neither *malum prohibitum* nor *malum in se?*

PART IV.

Summary of the Federal Corporation Tax Law.

The Federal Corporation Tax Act, which is given in full in the appendix, is one of the most important laws passed in recent years by the Congress; it affects, according to the report of the Commissioner of Internal Revenue for 1910, corporations with a total capital stock of $52,371,626,752 and with a bonded indebtedness of $31,333,952,000. Every one of those corporations has to make, in accordance with the requirements of the Tax Act, a yearly report, and has to pay an excise tax of one per cent. (1%) on all net income above $5,000.

The primary object of the lawmakers was to produce revenue; the title of the Act, however, sets out that one of its objects is to encourage the industries of the United States; according to others, again, the tax was levied solely as the result of a popular clamor for publicity with regard to corporation affairs. Respecting the last two objects, A. W. Machen, Jr., says in his Treatise on the Federal Corporation Tax Law of 1909: "The industries of the United States are, to a vastly preponderating extent, carried on by corporations which are subject to this tax, and it would be a poor way to 'encourage' them to impose on them such heavy burdens and to subject them on mere suspicion to such inquistorial examination and ruinous publicity as to compel many of them to quit business." It is a well-known fact that many concerns in the United States during the last year have changed from the corporate form of doing business to partnerships and associations, which is certainly not an illegitimate way of evading the tax.

Of special importance, however, is a thorough study of the tax law for every member of the accountancy profession. Their services are needed by the corporation when determining, in accordance with the requirements of the Act, what is the gross income and what deductions may be made legitimately in order to arrive at the taxable amount of net income. It is within his province to interpret the inexact nomenclature of the Act and to reconcile it with the accounting principles with which it is only too frequently at variance. To accomplish that task intelligently, it is of prime importance for the practicing accountant to be acquainted not only with the text of the law but also with its interpretation by the courts.

Following is a summary of the Corporation Tax Act, followed by a synopsis of decisions relating to it:

The chief provisions of the law may be summarized as follows:

I. Every domestic corporation, joint stock company, or association organized for profit and having a capital stock represented by shares, shall be subject to a tax of one per cent. (1%) on the entire net income over and above $5,000, exclusive of dividends obtained from corporations on which the tax is imposed, received by it in each calendar year, beginning with the year ending Dec. 31, 1909.

Every foreign corporation doing business within the United States shall be subject to the same conditions on business transacted and capital invested in any state or territory of the United States.

In Article 1, Appendix, p. 402, lines 9 and 10, we find the words ". . . a special excise tax with respect to the carrying on or doing business . . ." These words are essential in determining the constitutionality of the law, as this tax resembles greatly an income tax, which is against the Constitution. The courts have decided, however, that the amount of income serves only as a measurement of the tax, the latter being in reality a levy on business.

II. Article 2 lays down rules and definitions for determining the gross income of corporations classified as follows: (1) Banks and other financial institutions and insurance companies, (2) transportation companies, (3) manufacturing companies, (4) mercantile companies, and (5) miscellaneous companies.

III. The following deductions, specified in Articles 3 and 4, may be made from the gross income in order to ascertain the taxable net income:

1. All the ordinary expenses *actually paid* within the year in maintenance and operations of the business and its properties.
2. All losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation of property, if any, accrued during the year in the value from exhaustion, wear and tear, or obsolescence, when the loss has not been made good by payments for ordinary maintenance and repairs deducted under the heading of expenses of maintenance and operation or in the ascertainment of gross income; and in the case of insurance companies the sums other than dividends paid within the year on policy and annuity contracts and the net additions to the reserve as required by law.
3. Interest *actually paid* within the year on its bonded or other indebtedness to an amount of such bonded and other indebtedness not exceeding the paid-up capital stock of such corporation outstanding at the close of the year; in the case of banking institutions, also all interest actually paid within the year on deposits.
4. Taxes paid within the year to the government of the United States, to any state therein, or to any foreign government, as a condition of carrying on business therein.
5. Dividends received on the stock of other corporations, subject to the tax.
6. From the amount of ascertained net income the sum of $5,000.

With regard to the use of the phrase "gross amount of income received," Machen remarks: * "It should be observed that the tax is proportioned to income *received* during the year. This word would seem to exclude income to which the company may be entitled, but which has not been collected. Perhaps it would be too broad a statement that the Act

* Treatise on the Federal Corporation Tax Law of 1909.

contemplated only income collected in cash; but at any rate, it does seem to distinguish between estimated income and actual receipts."

Equally significant are his remarks on the repeatedly occurring phrase "*actually paid*": "It is only expenses 'actually paid' which are required to be deducted: a liability which has been incurred but not discharged is not to be included. This is no serious hardship, because the deduction could in that case be made the next, or any subsequent, year; for, as already stated, the deduction is not confined to the expense incurred for maintenance and operation during the year for which the tax is levied. The force of the words 'actually paid' should not be pressed too far. It is not as if the Act had said 'actually paid in cash,' although even in that case a set-off by mutual agreement of an existing debt owing to the company would be equivalent to payment. As it is, it would seem that according to the fair meaning of the words used they are equivalent to actually discharged or satisfied."

The discrepancy between the requirements of the law and sound accounting principles is evident here at a glance; according to the latter an expense or an item of income should be recorded, not when actually received or paid, but when incurred or accrued in a certain period, otherwise the year gets the charge or credit which rightfully belongs elsewhere.

IV. Under the authority of this Act forms of return have been prescribed, in which the various items specified in the law are stated; blank forms of this return are furnished to every corporation, not exempted from the tax, on or before January 1, and each corporation must make an accurate return, under the affirmation of its president or other principal officer and its treasurer, to the Collector of Internal Revenue, on or before March 1, setting forth the total capital stock paid up, outstanding at the close of the year, the gross income received during the year and the items, mentioned under III, to be used in computing the net income. Failure to receive the blanks or any notice relative thereto does not excuse a corporation from making the return nor relieve it from penalties for failure to do so.

In order to simplify the work of making the returns, every class of corporations, mentioned under II, receives a distinct form on which it must file its report; the forms for classes 3, 4 and 5 will be found in the Appendix, pp. 409-414, and it will be noticed that the difference is mainly in Note A, which gives the definitions of gross income for the various kinds of corporations. In the form for banks and other financial institutions, which is not printed there, the deductions include under 6 (b) the following provision: Total amount of interest paid within the year on deposits. The form for transportation companies is similar to Form No. 638.

The regulations of the Act do not call for specific methods of keeping accounts or any particular system of bookkeeping; the requirement is simply that the transactions be so recorded that accurate returns can be made therefrom and verified when necessary.

Accountancy Problems and Solutions.

In view of the fact that the language used by the lawmakers in framing the Act was in several instances not entirely clear, decisions have been rendered, from time to time, interpreting the meaning of the provisions. A synopsis of those decisions issued by the Internal Revenue Department follows.

(T. D. 1606.)

Special excise tax.

Synopsis of decisions relating to the tax imposed by section 38, act of August 5, 1909, on corporations, etc.

TREASURY DEPARTMENT,
OFFICER OF COMMISSIONER OF INTERNAL REVENUE,
Washington, D. C., March 29, 1910.

The following sypnosis of decisions made, from time to time, on questions relating to the special excise tax imposed by section 38, act of August 5, 1909, on corporations, joint stock companies, associations, and insurance companies, is published for the information of internal-revenue officers and others concerned.

ROYAL E. CABELL, *Commissioner.*

CLASS OF CORPORATIONS, ETC., SUBJECT TO TAXES.

1. The tax imposed by the act applies to all corporations, etc., described, except those specifically exempted, without reference to the kind of business carried on.

2. Every corporation, etc., not specifically enumerated as exempt shall make the return required by law, although its net income during the year may not have exceeded $5,000.

3. Corporations claiming special exemption should nevertheles make return (in blank if desired) accompanied by a statement setting forth the ground on which exemption is claimed.

4. Corporations, etc., organized during the year or going into liquidation during the year should nevertheless render a sworn return on the prescribed form. The tax imposed, however, is held not to apply to corporations which went out of existence prior to the passage of the act.

5. Where company has dissolved and the required return is not made by its officers, such return will be prepared by commissioner.

6. Where corporation has gone into bankruptcy, returns in such cases to be made by trustee in bankruptcy.

7. Railroad companies operating leased or purchased lines to include all receipts derived thereform, and if bonded indebtedness has been assumed may deduct interest thereon to an amount not exceeding its own paid-up

capital stock. If such subsidiary companies receive income in the way of rentals, etc., return to be also made by such companies.

8. Corporations, etc., organized under the authority of the United States or any State or Territory thereof, or Alaska or the District of Columbia, to include in their returns not only the income derived from the business carried on within the confines of the United States, but income received from business transacted in any foreign country as well.

9. Corporations having branch or subsidiary companies to include in their returns the income of all such companies.

10. Foreign companies having several branch offices in the United States should each designate one of such branches as its principal office and should also designate the proper officers to make the required return.

11. Where a consolidation of two or more corporations has been effected during the year, and each or any such corporation subsequent to such consolidation collects prior existing debts, each such corporation should make separate return and include therein all such collected debts, as also all income received during the year prior to the date of consolidation.

12. "Principal place of business" is held to mean the principal office where the company keeps its books from which the required return is to be prepared and not the place where the operating plant is located.

13. As the law specifically provides that the tax imposed shall be computed on the net income during each calendar year, returns of income based on any period other than the calendar year cannot be accepted.

14. Full amount of stock, as represented by the par value of the shares issued, to be regarded as the paid-up capital stock, except when such stock is assessable on account of the deferred payments, in which case the amount actually paid on such shares will constitute the actual paid-up capital stock of the corporation.

15. Capital stock held to include both preferred and common stock.

16. Surplus and undivided profits not to be included in capital stock.

17. Holding companies known as "Voting trusts," receiving only dividends on stock held, and having no capital stock, etc., not liable.

18. Mutual savings banks having no capital stock not liable to tax imposed. (Opin. Atty. Gen., Feb. 14, 1910.)

19. Co-operative dairies not issuing stock and allowing patrons dividends based on butter fat in milk furnished not liable.

20. Foreign steamship companies having no office in the United States, whose vessels only occasionally touch at ports in the United States, not regarded as doing business in this country within the meaning of the statute.

21. Companies organized in Porto Rico and not engaged in business in the United States not subject to tax.

22. Corporations owning sugar or other plantations and disposing of the products thereof not entitled to exemption as agricultural organizations.

23. Corporations organized to sell provisions, etc., to stockholders and others not exempted.

24. Corporations organized for the purpose of holding real estate, to make return of income derived from the property so held.

25. National banks do not come within any of the exemptions named in the act.

26. "Agricultural organizations" held not to come within the statutory exemption, unless their chief object is the promotion or advancement of agricultural interest, and no part of the net income inures to the benefit of their stockholders.

27. Mutual Hail Association regarded as an insurance company and not as an agricultural association, and therefore liable to tax.

28. Exemption in favor of fraternal beneficiary associations does not apply to mutual fire insurance companies.

29. Limited partnership, if organized for profit and having a capital stock represented by shares, although no "certificates of stock" are issued, are liable to the tax imposed. (Opin. Atty. Gen., Feb. 14, 1910.)

30. Building and loan associations not exempt if having a capital and loaning to others than members, i. e., if doing a business akin to banking business.

31. Building and loan associations issuing stock on which dividends are guaranteed held to be liable to tax imposed.

32. Interest received on Government bonds to be included in gross income. (Opin. Atty. Gen., Jan. 13, 1910.)

33. Returns should be signed and verified by two of the officers designated in the law. Signing of one person holding two such offices not permitted. Agents for foreign steamship companies may sign the required returns, if so authorized by their companies.

34. Returns not required to have corporate seal affixed.

35 Returns filed with deputy collector regarded as having been filed with collector.

36. No form of protest prescribed. Any form of protest sufficient if filed before payment of tax. Right of protest not to be denied.

INVENTORIES, ACCOUNTS, ETC.

37. Where an inventory or its equivalent was not taken at the close of the year 1908, a supplemental statement showing such inventory approximately must be submitted with the return on the regular form. Such supplemental statement shall be verified under oath by the treasurer or principal financial officer submitting the same. (T. D. 1578.)

38. Cost of manufactured articles, or articles in process of manufacture, held to include original cost of material used, plus cost of labor, etc.

39. Mortgaged real estate should be inventoried at its full value, and amount of mortgage reported as indebtedness.

40. Profits realized on sale of real estate during year, also increase in value of unsold property, to be included in income.

41. Receipts during year from lands sold on installment to be included in gross income for that year.

42. Receipts from sale of patent rights to be included in income.

43. No particular system of bookkeeping or accounting will be required by the department. However, the business transacted by corporations, etc., must be so recorded that each and every item therein set forth may be readily verified by an examination of the books and accounts where such examination is deemed necessary.

DEDUCTIONS, EXPENSES, ETC.

44. It is immaterial whether the deductions are evidenced by actual disbursements in cash or whether evidenced in such other way as to be properly acknowledged by the corporate officers and so entered on the books as to constitute a liability against the assets of the corporation, etc., making the return.

45. Mortgage indebtedness on real estate, if assumed by the corporation acquiring such real estate, to be included in the indebtedness of the corporation. But if not so assumed and remains only as a lien on the property, interest paid thereon may be deducted as a charge "made as a condition to the continued use or possession of the property." (Opin. Atty. Gen., Feb. 21, 1910.)

46. Cost of erecting building, if included in lease under which property is held by company, is a proper deduction, to be prorated according to time fixed by lease.

47. General expenses, such as coal, ship stores, etc., of foreign steamship companies, to be prorated as provided in act for interest deductions.

48. Amount received by nursery companies from sales of trees, etc., less amount expended for seedlings and young trees, to be included in gross income. Amount expended for labor, salesmen, etc., to be deducted as expenses.

49. Commissions allowed salesmen, paid in stock, may be deducted as expense if so charged on books.

50. Sales of stock and bonds are regarded as sales of capital assets and should be so accounted for. (Art. 2, regs. 31.) But proceeds derived from sale of bonds used in defraying ordinary and necessary expenses are a proper deduction in determining the company's net income.

51. Stock issued in payment of property purchased represents capital investments, and notes issued during the year represent indebtedness. Corporate funds applied to the payment of outstanding notes not a proper deduction in ascertaining net income.

52. Amounts expended in betterments or repairs not a proper deduction. A resonable allowance for depreciation of stock, etc., is permissible.

53. Betterments and repairs not proper reductions as expenses, the former being additions to the capital assets of the company, and the latter being offset by allowance for depreciation.

54. Cost of replacing old rails, structures, etc., not regarded as ordinary and necessary expenses. Depreciation during year will be allowed, however, in such cases.

55. Dividends received by corporations on stock of other corporations whose net income does not exceed $5,000 is nevertheless a proper deduction under the law. (Opin. Atty. Gen., Jan. 24, 1910.)

56. Dividends received on stock of foreign corporations not subject to tax not a proper deduction.

57. Dividends paid employees in lieu of wages not proper deduction as expenses.

58. Royalties on patent rights to be reported as income. Allowance for depreciation of patents expiring during year, however, will be allowed.

59. Pensions paid or gifts made to employees are gratuities and not "ordinary and necessary expenses."

60. Where allowances on account of salaries are deemed excessive and for the purpose of evading the tax due, investigation will be made, and if the facts warrant prosecution will follow.

61. Interest paid on time deposits and deposits subject to check constitutes a proper deduction from the amount of gross income during the year.

62. Interest on portions of bonded or other indebtedness bearing different rates of interest may be deducted from gross income during the year, provided the aggregate amount of such indebtedness does not exceed the paid-up capital stock of the corporation.

63. Interest paid during the year on notes given prior to January 1, 1909, to be prorated. But interest on notes given in 1909, and payable subsequent to December, 1909, unless charged on the company's books, is not a proper deduction from the income of that year.

64. Interest or taxes accruing prior to the year for which return is made is not a proper deduction from the gross income for that year.

65. Unearned premiums set aside by insurance companies as reserve not to be included as income until earned.

66. Funds set aside by company for insuring their own property not a proper deduction.

67. As the tax imposed is measured by and is not a tax upon the net receipts of corporations, etc., interest received during the year on Government bonds is not a proper deduction from such income in determining the amount of tax due. (Opin. Atty. Gen., T. D. 1583.)

68. State, county, or municipal taxes paid during the year a proper deduction in ascertaining the net income of corporations.

69. Import duties or taxes if included in arriving at cost of goods are not deductible under the head of taxes paid during the year.

70. Bad debts, if so charged off the company's books during the year, are proper deductions. But such debts, if subsequently collected, must be treated as income.

DEPRECIATION.

71. Where increase or decrease during the year in the value of real estate acquired in previous years, sold or held for sale, can not be accurately determined, such increase or decrease may be prorated, as provided by regulations in cases of sale of capital assets.

72. Depreciation in value of mines by the removal of ore, if not otherwise ascertainable, may be prorated as in the case of sales of capital assets.

73. Depreciation in value of mines by the removal of ore, if in excess of 5 per cent. of investment, to be explained in return rendered.

74. Estimated depreciation in oil or gas wells, buildings machinery, etc., to be stated in detail, if exceeding 5 per cent. of value as previously inventoried.

75. Corporations leasing mines and paying royalties on ore mined not entitled to deduction for depreciation. But corporations owning mines are entitled to allowance for depreciation based on fair estimate, etc.

76. Removal of timber from timber lands, while depleting the lands to the extent of such removal, is regarded as a change in the form of assets and not a depreciation within the meaning of the act.

77. Deduction on account of depreciation of property must be based on lifetime of property, its cost, value, and use.

78. Voluntary removal of buildings, etc., for purpose of improvements not regarded as loss or depreciation, and no deduction therefor should be made.

79. Depreciation of company's stock a loss to the stockholders, but not a loss to the company issuing the same, and therefore not a proper deduction.

(Signed) Royal E. Cabell, *Commissioner.*

APPENDIX.

Full Text of The Corporation Tax Act. Section 38 of An Act of Congress

Entitled

An Act to provide revenue, equalize duties and encourage the industries of the United States, and for other purposes.

Approved August 5, 1909.

ARTICLE FIRST.

Imposition of special excise tax upon domestic and foreign corporations; nature, amount and basis of tax; classes of corporations excepted from operation of act.

That every corporation, joint stock company or association, organized for profit and having a capital stock represented by shares, and every insurance company, now or hereafter organized under the laws of the United States or of any state or territory of the United States or under the acts of Congress applicable to Alaska or the District of Columbia, or now or hereafter organized under the laws of any foreign country and engaged in business in any state or territory of the United States or in Alaska or in the District of Columbia, shall be subject to pay annually a special excise tax with respect to the carrying on or doing business by such corporation, joint stock company or association, or insurance company, equivalent to one per centum upon the entire net income over and above five thousand dollars received by it from all sources during such year, exclusive of amounts received by it as dividends upon stock of other corporations, joint stock companies or associations, or insurance companies, subject to the tax hereby imposed; or if organized under the laws of any foreign country, upon the amount of net income over and above five thousand dollars received by it from business transacted and capital invested within the United States and its territories, Alaska, and the District of Columbia during such year, exclusive of amounts so received by it as dividends upon stock of other corporations, joint stock companies or associations, or insurance companies, subject to the tax hereby imposed:

Provided, however, that nothing in this section contained shall apply to labor, agricultural or horticultural organizations, or to fraternal beneficiary societies, orders or associations operating under the lodge system, and providing for the payment of life, sick, accident and other benefits to the members of such societies, orders, or associations, and dependents of such members, nor to domestic building and loan associations, organized and operated exclusively for the mutual benefit of their members, nor to any

corporation or association organized and operated exclusively for religious, charitable or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual.

ARTICLE SECOND.

How "net income" constituting basis of assessment shall be ascertained and computed.

Such net income shall be ascertained by deducting from the gross amount of the income of such corporation, joint stock company or association, or insurance company, received within the year from all sources,

First, all the ordinary and necessary expenses actually paid within the year out of income in the maintenance and operation of its business and properties, including all charges such as rentals or franchise payments, required to be made as a condition to the continued use or possession of property.

Second, all losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation of property, if any, and in the case of insurance companies the sums other than dividends, paid within the year on policy and annuity contracts and the net addition, if any, required by law to be made within the year to reserve funds.

Third, interest actually paid within the year on its bonded or other indebtedness to an amount of such bonded and other indebtedness not exceeding the paid-up capital stock of such corporation, joint stock company or association, or insurance company, outstanding at the close of the year, and in the case of a bank, banking association or trust company, all interest actually paid by it within the year on deposits.

Fourth, all sums paid by it within the year for taxes imposed under the authority of the United States or of any state or territory thereof, or imposed by the government of any foreign country as a condition to carrying on business therein.

Fifth, all amounts received by it within the year as dividends upon stock of other corporations, joint stock companies or associations, or insurance companies, subject to the tax hereby imposed.

Provided, that in the case of a corporation, joint stock company or association, or insurance company, organized under the laws of a foreign country, such net income shall be ascertained by deducting from the gross amount of its income received within the year from business transacted and capital invested within the United States and any of its territories, Alaska, and the District of Columbia.

First, all the ordinary and necessary expenses actually paid within the year out of earnings in the maintenance and operation of its business and property within the United States and its territories, Alaska, and the District of Columbia, including all charges such as rentals or franchise payments required to be made as a condition to the continued use or possession of property.

Second, all losses actually sustained within the year in business conducted by it within the United States or its territories, Alaska, or the District of Columbia, not compensated by insurance or otherwise, including a reasonable allowance for depreciation of property, if any, and in the case of insurance companies the sums other than dividends, paid within the year on policy and annuity contracts and the net addition, if any, required by law to be made within the year to reserve funds.

Third, interest actually paid within the year on its bonded or other indebtedness to an amount of such bonded and other indebtedness not exceeding the proportion of its paid-up capital stock outstanding at the close of the year which the gross amount of its income for the year from business transacted and capital invested within the United States and any of its territories, Alaska, and the District of Columbia bears to the gross amount of its income derived from all sources within and without the United States.

Fourth, the sums paid by it within the year for taxes imposed under the authority of the United States or of any state or territory thereof.

Fifth, all amounts received by it within the year as dividends upon stock of other corporations, joint stock companies or associations and insurance companies, subject to the tax hereby imposed.

In the case of assessment insurance companies the actual deposit of sums with state or territorial officers, pursuant to law, as additions to guaranty or reserve funds, shall be treated as being payments required by law to reserve funds.

ARTICLE THIRD.

Deduction of $5,000 from amount of "net income" allowed; returns to be made to collector of internal revenue; form and general contents of return.

There shall be deducted from the amount of the net income of each of such corporations, joint stock companies, or associations, or insurance companies, ascertained as provided in the foregoing paragraphs of this section, the sum of five thousand dollars, and said tax shall be computed upon the remainder of said net income of such corporation, joint stock company or association, or insurance company, for the year ending December thirty-first, nineteen hundred and nine, and for each calendar year thereafter; and on or before the first day of March, nineteen hundred and ten, and the first day of March in each year thereafter, a true and accurate return under oath or affirmation of its president, vice-president, or other principal officer, and its treasurer or assistant treasurer, shall be made by each of the corporations, joint stock companies or associations, and insurance companies, subject to the tax imposed by this section, to the collector of internal revenue for the district in which such corporation, joint stock company or association, or insurance company, has its principal place of business, or, in the case of a corporation, joint stock company or association, or insurance company, organized under

the laws of a foreign country, in the place where its principal business is carried on within the United States, in such form as the commissioner of internal revenue, with the approval of the secretary of the treasury, shall prescribe, setting forth:

First, the total amount of the paid-up capital stock of such corporation, joint stock company or association, or insurance company, outstanding at the close of the year.

Second, the total amount of the bonded and other indebtedness of such corporation, joint stock company or association, or insurance company, at the close of the year.

Third, the gross amount of the income of such corporation, joint stock company or association, or insurance company, received during such year from all sources, and if organized under the laws of a foreign country, the gross amount of its income received within the year from business transacted and capital invested within the United States and any of its territories, Alaska, and the District of Columbia; also the amount received by such corporation, joint stock company or association, or insurance company, within the year by way of dividends upon stock of other corporations, joint stock companies or associations, or insurance companies, subject to the tax imposed by this section.

Fourth, the total amount of all the ordinary and necessary expenses actually paid out of earnings in the maintenance and operation of the business and properties of such corporation, joint stock company or association, or insurance company, within the year, stating separately all charges such as rentals or franchise payments required to be made as a condition to the continued use or possession of property, and if organized under the laws of a foreign country, the amount so paid in the maintenance and operation of its business within the United States and its territories, Alaska, and the District of Columbia.

Fifth, the total amount of all losses actually sustained during the year and not compensated by insurance or otherwise, stating separately any amounts allowed for depreciation of property, and in the case of insurance companies the sums other than dividends, paid within the year on policy and annuity contracts and the net addition, if any, required by law to be made within the year to reserve funds; and in the case of a corporation, joint stock company or association, or insurance company, organized under the laws of a foreign country, the amount so paid in the by it during the year in business conducted by it within the United States or its territories, Alaska, and the District of Columbia, not compensated by insurance or otherwise, stating separately any amounts allowed for depreciation of property, and in the case of insurance companies the sums other than dividends, paid within the year on policy and annuity contracts and the net addition, if any, required by law to be made within the year to reserve fund.

Sixth, the amount of interest actually paid within the year on its bonded or other indebtedness to an amount of such bonded and other in-

debtedness not exceeding the paid-up capital stock of such corporation, joint stock company or association, or insurance company, outstanding at the close of the year, and in the case of a bank, banking association or trust company, stating separately all interest paid by it within the year on deposits; or in case of a corporation, joint stock company or association, or insurance company, organized under the laws of a foreign country, interest so paid on its bonded or other indebtedness to an amount of such bonded and other indebtedness not exceeding the proportion of its paid-up capital stock outstanding at the close of the year which the gross amount of its income for the year from business transacted and capital invested within the United States and any of its territories, Alaska, and the District of Columbia, bears to the gross amount of its income derived from all sources within and without the United States.

Seventh, the amount paid by it within the year for taxes imposed under the authority of the United States or any state or territory thereof, and separately the amount so paid by it for taxes imposed by the government of any foreign country as a condition to carrying on business therein.

Eighth, the net income of such corporation, joint stock company or association, or insurance company, after making the deductions in this section authorized.

All such returns shall as received be transmitted forthwith by the collector to the commissioner of internal revenue.

ARTICLE FOURTH.

Powers of commissioner of internal revenue in cases where incorrect return or no return is made; examination of books and accounts.

Whenever evidence shall be produced before the commissioner of internal revenue which in the opinion of the commissioner justifies the belief that the return made by any corporation, joint stock company or association, or insurance company, is incorrect, or whenever any collector shall report to the commissioner of internal revenue that any corporation, joint stock company or association, or insurance company, has failed to make a return as required by law, the commissioner of internal revenue may require from the corporation, joint stock company or association, or insurance company making such return, such further information with reference to its capital, income, losses, and expenditures as he may deem expedient; and the commissioner of internal revenue, for the purpose of ascertaining the correctness of such return or for the purpose of making a return where none has been made, is hereby authorized by any regularly appointed revenue agent specially designated by him for that purpose, to examine any books and papers bearing upon the matters required to be included in the return of such corporation, joint stock company or association, or insurance company, and to require the attendance of any officer or employee of such corporation, joint stock company or association, or insurance company, and to take his testimony with reference to the matter required by law to be included in such return,

with power to administer oaths to such person or persons; and the commissioner of internal revenue may also invoke the aid of any court of the United States having jurisdiction to require the attendance of such officers or employees and the production of such books and papers. Upon the information so acquired the commissioner of internal revenue may amend any return or make a return where none has been made. All proceedings taken by the commissioner of internal revenue under the provisions of this section shall be subject to the approval of the secretary of the treasury.

ARTICLE FIFTH.

Assessment of tax; penalties by way of additions to tax for false returns and in cases of neglect to make returns; assessments payable annually on or before June 30; penalties for non-payment.

All returns shall be retained by the commissioner of internal revenue, who shall make assessments thereon; and in case of any return made with false or fraudulent intent, he shall add one hundred per centum of such tax, and in case of a refusal or neglect to make a return or to verify the same as aforesaid he shall add fifty per centum of such tax. In case of neglect occasioned by the sickness or absence of an officer of such corporation, joint stock company or association, or insurance company, required to make said return, or for other sufficient reason, the collector may allow such further time for making and delivering such return as he may deem necessary, not exceeding thirty days. The amount so added to the tax shall be collected at the same time and in the same manner as the tax originally assessed, unless the refusal, neglect or falsity is discovered after the date for payment of said taxes, in which case the amount so added shall be paid by the delinquent corporation, joint stock company or association, or insurance company, immediately upon notice given by the collector.

All assessments shall be made and the several corporations, joint stock companies or associations, or insurance companies, shall be notified of the amount for which they are respectively liable on or before the first day of June of each successive year, and said assessments shall be paid on or before the thirtieth day of June, except in cases of refusal or neglect to make such return, and in cases of false or fraudulent returns, in which cases the commissioner of internal revenue shall, upon the discovery thereof, at any time within three years after said return is due, make a return upon information obtained as above provided for, and the assessment made by the commissioner of internal revenue thereon shall be paid by such corporation, joint stock company or association, or insurance company, immediately upon notification of the amount of such assessment; and to any sum or sums due and unpaid after the thirtieth day of June in any year, and for ten days after notice and demand thereof by the collector, there shall be added the sum of five per centum on the amount of tax unpaid and interest at the rate of one per centum per month upon said tax from the time the same becomes due.

ARTICLE SIXTH.

All returns to be filed by collectors in office of commissioner of internal revenue.

When the assessment shall be made, as provided in this section, the returns, together with any corrections thereof which may have been made by the commissioner, shall be filed in the office of the commissioner of internal revenue and shall constitute public records and be open to inspection as such.

ARTICLE SEVENTH.

Unlawful for officials to divulge information.

It shall be unlawful for any collector, deputy collector, agent, clerk or other officer or employee of the United States to divulge or make known, in any manner whatever not provided by law, to any person any information obtained by him in the discharge of his official duty, or to divulge or make known in any manner not provided by law any document received, evidence taken, or report made under this section, except upon the special direction of the president; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding one thousand dollars, or by imprisonment not exceeding one year, or both, at the discretion of the court.

ARTICLE EIGHTH.

Penalties imposed upon corporations, joint stock companies and associations for refusal or neglect to make returns and for false or fraudulent returns.

If any of the corporations, joint stock companies or associations, or insurance companies, aforesaid, shall refuse or neglect to make a return at the time or times hereinbefore specified in each year, or shall render a false or fraudulent return, such corporation, joint stock company or association, or insurance company, shall be liable to a penalty of not less than one thousand dollars and not exceeding ten thousand dollars.

Any person authorized by law to make, render, sign, or verify any return, who makes any false or fraudulent return, or statement, with intent to defeat or evade the assessment required by this section to be made, shall be guilty of a misdemeanor, and shall be fined not exceeding one thousand dollars or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

All laws relating to the collection, remission, and refund of internal revenue taxes, so far as applicable to and not inconsistent with the provisions of this section, are hereby extended and made applicable to the tax imposed by this section.

Jurisdiction is hereby conferred upon the circuit and district courts of the United States for the district within which any person summoned under this section to appear to testify or to produce books, as aforesaid, shall reside, to compel such attendance, production of books, and testimony by appropriate process.

Form No. 637.—FORM TO BE FILED BY MANUFACTURING CORPORATIONS.

This form, properly filled out and executed, must be in the hands of the collector of internal revenue for the district in which is located the principal office of the corporation making the return on or before March 1.

TO BE FILLED IN BY COLLECTORS.	TO BE FILLED IN BY INTERNAL REVENUE BUREAU.
List No..........	Assessment List...............19....
Class.............	Page............... Line...........
........District of...............	Date received................19....

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME.

(Section 38, Act of Congress, Approved August 5, 1909.)

MANUFACTURING CORPORATIONS.

Return of Net Income received during the year ending December 31, 19...., by ....a corporation, the principal place of business of which is located at.........................in the State of...............................

1. Total amount of paid-up stock outstanding at close of year .... $.......
2. Total amount of bonded or other indebtedness outstanding at close of year.................... $.......
3. Gross Income (see Note A)...................... $.......

DEDUCTIONS.

4. Total amount of all the ordinary and necessary expenses of maintenance and operation of the business and properties of the corporation (see Note B). $......
5. (a) Total amount of losses sustained January 1 to December 31 .... $......
   (b) Total amount of depreciation January 1 to December 31.. $......
   Total (see Note B).............. $......
6. Total amount of interest January 1 to December 31 on bonded or other indebtedness to an amount not to exceed amount of paid-up capital at close of year (see Note B) .... $......
7. (a) Total taxes paid January 1 to December 31 imposed un-

der authority of the United States or any state or territory thereof .... $......

(b) Foreign taxes paid............ $......

TOTAL (see Note B).............. $......

8. Amount received by way of dividends upon stock of other corporations, joint stock companies, associations and insurance companies subject to this tax .... $......

TOTAL DEDUCTIONS .... $.......

9. NET INCOME .... $.......

10. Specific deduction from net income allowed by law... $5,000.00

11. Amount on which tax at one per centum is to be calculated .... $.......

STATE OF......................., COUNTY OF................. To wit: ...., President, and.................Treasurer, of the ....corporation, whose return of annual net income is set forth above, being severally duly sworn, each for himself, deposes and says that the foregoing report and the several items therein set forth are, to his best knowledge and belief and from such information as he has been able to obtain, true and correct in each and every particular; that the amount of gross income therein set forth is the full amount of gross income, without any deduction whatsoever, received from all sources by the said corporation during the year stated, and that the net income therein set forth is the full amount on which the tax is proper to be assessed.

SWORN AND SUBSCRIBED to before me this.......................... day of..........................., 19....

.........................President.

.........................Treasurer.

...................[Seal].

Note A.—The gross income received during the year from all sources shall in the case of a manufacturing corporation consist of the total amount ascertained through an accounting that shows the difference between the price received for the goods as sold and the cost of such goods as manufactured. The cost of goods maufactured shall be ascertained by an addition of a charge to the account of the cost of goods as manufactured during the year, of the sum of the inventory at beginning of the year and a credit to the account of the sum of the inventory at the end of the year. To this amount should be added all items of income received during the year from other sources, including dividends received on stock of other corporations, joint-stock companies and associations subject to this tax. In the determination of the cost of goods manufactured and sold as above, such cost shall comprehend all charges for maintenance and operation of manufacturing plant, but shall not embrace allowances for depreciation or losses, which items shall be taken account of under the proper heading above as a deduction.

Note B.—The deductions authorized shall include all expense items under the various heads acknowledged as liabilities by the corporation making the return and entered as such on its book from January 1 to December 31 of the year for which return is made.

Form No. 638.—FORM TO BE FILED BY MISCELLANEOUS CORPORATIONS.

This form, properly filled out and executed, must be in the hands of the collector of internal revenue for the district in which is located the principal office of the corporation making the return on or before March 1.

TO BE FILLED IN BY COLLECTORS.	TO BE FILLED IN BY INTERNAL REVENUE BUREAU.
List No..........	Assessment List...............19....
Class.............	Page............... Line...........
........District of...............	Date received ....19....

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME.

(Section 38, Act of Congress, Approved August 5, 1909.)

MISCELLANEOUS CORPORATIONS.

RETURN OF NET INCOME received during the year ending December 31, 19...., by ....a corporation, the principal place of business of which is located at.........................in the State of................................

1. Total amount of paid-up stock outstanding at close of year .... $.......
2. Total amount of bonded or other indebtedness outstanding at close of year.................... $.......
3. GROSS INCOME (see Note A)...................... $.......

DEDUCTIONS.

4. Total amount of all the ordinary and necessary expenses of maintenance and operation of the business and properties of the corporation (see Note B). $......
5. (a) Total amount of losses sustained January 1 to December 31 .... $......
   (b) Total amount of depreciation January 1 to December 31.. $......
   TOTAL (see Note B)............. $......
6. Total amount of interest January 1 to December 31 on bonded or other indebtedness to an amount not to exceed amount of paid-up capital at close of year (see Note B) .... $......

7. (a) Total taxes paid January 1 to December 31 imposed under authority of the United States or any state or territory thereof .... $......
(b) Foreign taxes paid............ $......
TOTAL (see Note B).............. $......

8. Amount received by way of dividends upon stock of other corporations, joint stock companies, associations and insurance companies subject to this tax .... $......
TOTAL DEDUCTIONS .... $.......

9. NET INCOME .... $.......
10. Specific deduction from net income allowed by law... $5,000.00

11. Amount on which tax at one per centum is to be calculated .... $.......

STATE OF......................., COUNTY OF................. To wit: ...., President, and.................Treasurer, of the ....corporation, whose return of annual net income is set forth above, being severally duly sworn, each for himself, deposes and says that the foregoing report and the several items therein set forth are to his best knowledge and belief, and from such information as he has been able to obtain, true and correct in each and every particular; that the amount of gross income therein set forth is the full amount of gross income without any deduction whatsoever received from all sources by the said corporation during the year stated, and that the net income therein set forth is the full amount on which the tax is proper to be assessed.

SWORN AND SUBSCRIBED to before me this.......................... day of..........................., 19....

.........................President.

.........................Treasurer.

...................[Seal].

Note A.—Gross income shall consist of the total of the gross revenue derived from the operation and management of its business and properties, together with all amounts of income from other sources, including dividends on stock of other organizations subject to this special excise tax received, as shown by entries upon its books from January 1 to December 31 of the year for which return is made.

Note B.—The deductions authorized shall include all expense items under the various heads acknowedged as liabilities by the corporation making the return and entered as such on its books from January 1 to December 31 of the year for which return is made.

Form No. 639.—FORM TO BE FILED BY MERCANTILE CORPORATIONS.

This form, properly filled out and executed, must be in the hands of the collector of internal revenue for the district in which is located the principal office of the corporation making the return on or before March 1.

TO BE FILLED IN BY COLLECTORS.	TO BE FILLED IN BY INTERNAL REVENUE BUREAU.
List No..........	Assessment List...............19....
Class.............	Page............... Line...........
........District of...............	Date received ....19....

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME.

(Section 38, Act of Congress, Approved August 5, 1909.)

MERCANTILE CORPORATIONS.

(Corporations whose principal business is buying and selling.)

RETURN OF NET INCOME received during the year ending December 31, 19...., by ....a corporation, the principal place of business of which is located at.........................in the State of................................

1. Total amount of paid-up stock outstanding at close of year .... $.......
2. Total amount of bonded or other indebtedness outstanding at close of year.................... $.......
3. GROSS INCOME (see Note A)....................... $.......

DEDUCTIONS.

4. Total amount of all the ordinary and necessary expenses of maintenance and operation of the business and properties of the corporation (see Note B). $......
5. (a) Total amount of losses sustained January 1 to December 31 .... $......
   (b) Total amount of depreciation January 1 to December 31.. $......
   TOTAL (see Note B).............. $......
6. Total amount of interest January 1 to December 31 on bonded or other indebtedness to an amount not to exceed amount of paid-up capital at close of year (see Note B) .... $......
7. (a) Total taxes paid January 1 to December 31 imposed under authority of the United

States or any state or territory thereof .... $.....
(b) Foreign taxes paid............ $.....
TOTAL (see Note B).............. $.....
8. Amount received by way of dividends upon stock of other corporations, joint stock companies, associations and insurance companies subject to this tax .... $.....
TOTAL DEDUCTIONS .... $.......

9. NET INCOME .... $.......
10. Specific deduction from net income allowed by law... $5,000.00

11. Amount on which tax at one per centum is to be calculated for assessment....................... $.......

STATE OF......................, COUNTY OF................ To wit: ...., President, and.................Treasurer, of the ....corporation, whose return of annual net income is set forth above, being severally duly sworn, each for himself, deposes and says that the foregoing report and the several items therein set forth are to his best knowledge and belief, and from such information as he has been able to obtain, true and correct in each and every particular; that the amount of gross income therein set forth is the full amount of gross income without any deduction whatsoever, received from all sources by the said corporation during the year stated, and that the net income therein set forth is the full amount on which the tax is proper to be assessed.

SWORN AND SUBSCRIBED to before me this.......................... day of.........................., 19....

....
President.

....
Treasurer.

..................[Seal].

Note A.—The gross amount of income received during the year from all sources shall in the case of a mercantile corporation consist of the total amount ascertained through inventory, or its equivalent, which shows the difference between the price received for goods sold and the cost of goods purchased during the year, with an addition of a charge to the account of the sum of the inventory at beginning of the year and a credit to the account of the sum of the inventory at the end of the year. To this amount should be added all items of income received during the year from other sources, including dividends received on stock of other corporations, joint-stock companies and associations subject to this tax. In determining this amount no account shall be taken of allowances for depreciation or losses, which items shall be taken account of under the proper heading above as a deduction.

Note B.—The deductions authorized shall include all expense items under the various heads acknowledged as liabilities by the corporation making the return and entered as such on its books from January 1 to December 31 of the year for which return is made.

Supreme Court of the United States.

Nos. 407, 409, 410, 411, 412, 415, 420, 425, 431, 432, 442, 443, 446, 456 and 457.—October Term, 1910.

Stella P. Flint, as General Guardian of the property of Samuel N. Stone, Junior, a minor, Appellant, 407 *vs.* Stone Tracy Company et al.	Appeal from the Circuit Court of the United States for the District of Vermont.
Wyckoff Van Derhoeff, Appellant, 409 *vs.* The Coney Island and Brooklyn Railroad Company et al. Francis L. Hine, Appellant, 410 *vs.* Home Life Insurance Company et al.	Appeals from the Circuit Court of the United States for the Southern District of New York.
Fred W. Smith, Appellant, 411 *vs.* The Northern Trust Company, A. C. Bartlett, William A. Fuller et al. William H. Miner, Appellant, 412 *vs.* The Corn Exchange National Bank of Chicago, Charles H. Wacker, Martin A. Ryerson et al.	Appeals from the Circuit Court of the United States for the Northern District of Illinois.
Cedar Street Company, Appellant, 415 *vs.* Park Realty Company.	Appeal from the Circuit Court of the United States for the Southern District of New York.
Lewis W. Jared, Appellant, 420 *vs.* The American Multigraph Company et al.	Appeal from the Circuit Court of the United States for the Northern District of Ohio.
Joseph E. Gay, Appellant, 425 *vs.* The Baltic Mining Company et al.	Appeal from the Circuit Court of the United States for the District of Massachusetts.

Percy H. Brundage, Appellant, 431 *vs.* Broadway Realty Company et al. Paul Lecroix, Appellant, 432 *vs.* Motor Taximeter Cab Company et al. Arthur Lyman and Arthur T. Lyman, as Trustees under the last will and testament of George Baty Blake, deceased, Appellants, 442 *vs.* Interborough Rapid Transit Company et al.	Appeals from the Circuit Court of the United States for the Southern District of New York.
George Wendell Phillips, Appellant 443 *vs.* Fifty Associates et al.	Appeal from the Circuit Court of the United States for the District of Massachusetts.
Oscar Mitchell, Appellant, 446 *vs.* Clark Iron Company.	Appeal from the Circuit Court of the United States for the District of Minnesota.
William H. Fluhrer, Albert W. Durand and Howard H. Williams, Appellants, 456 *vs.* New York Life Insurance Company.	Appeal from the Circuit Court of the United States for the Southern District of New York.
Katherine Cary Cook, Harriet Huntington Cook, and Ellenor Richardson Cook, by Anna H. R. Cook, their guardian and next friend, Appellants, 457 *vs.* Boston Wharf Company et al.	Appeal from the Circuit Court of the United States for the District of Massachusetts.

[March 13, 1911.]

Mr. Justice Day delivered the opinion of the Court.

These cases involve the constitutional validity of Section 38 of the Act of Congress approved August 5, 1909, known as "The Corporation Tax" law. (Stat. 1909, pp. 11-112-117.)

It is contended in the first place that this section of the act is unconstitutional, because it is a revenue measure, and originated in the Senate in violation of Section 7 of Article 1 of the Constitution, providing that "all bills for the raising of revenue shall originate in the House of Represen-

tatives, but the Senate may propose or concur with amendments as on other bills." The history of the act is contained in the Government's brief, and is accepted as correct, no objection being made to its accuracy.

This statement shows that the tariff bill, of which the section under consideration is a part, originated in the House of Representatives and was there a general bill for the collection of revenue. As originally introduced, it contained a plan of inheritance taxation. In the Senate the proposed tax was removed from the bill, and the corportion tax, in a measure, substituted therefor. The bill having properly originated in the House, we perceive no reason in the constitutional provision relied upon why it may not be amended in the Senate in the manner which it was in this case. The amendment was germane to the subject-matter of the bill and not beyond the power of the Senate to propose. In thus deciding we do not wish to be regarded as holding that the journals of the House and Senate may be examined to invalidate an act which has been passed and signed by the presiding officers of the House and Senate and approved by the President and duly deposited with the State Department. (Field *vs.* Clark, 143 U. S. 649; Harwood *vs.* Wentworth, 162 U. S. 547; Twin City Bank vs. Nebeker, 167 U. S. 196.)

In order to have in mind some of the more salient features of the statute with a view to its interpretation, a part of the first paragraph is here set out, as follows:

"Sec. 38. That every corporation, joint stock company or association organized for profit and having a capital stock represented by shares, and every insurance company now or hereafter organized under the laws of the United States or of any state or territory of the United States, or under the acts of Congress applicable to Alaska or the District of Columbia, or now or hereafter organized under the laws of any foreign country and engaged in business in any state or territory of the United States or in Alaska or in the District of Columbia, shall be subject to pay annually a special excise tax with respect to the carrying on or doing business by such corporation, joint stock company or association or insurance company equivalent to one per centum upon the entire net income over and above five thousand dollars received by it from all sources during such year, exclusive of amounts received by it as dividends upon stock of other corporations, joint stock companies or associations or insurance companies subject to the tax hereby imposed; or if organized under the laws of any foreign country, upon the amount of net income over and above five thousand dollars received by it from business transacted and capital invested within the United States and its territories, Alaska and the District of Columbia, during such year, exclusive of amounts so received by it as dividends upon stock of other corporations, joint stock companies or associations or insurance companies subject to the tax hereby imposed."

A reading of this portion of the statute shows the purpose and design of Congress in its enactment and the subject-matter of its operation. It is at once apparent that its terms embrace corporations and joint stock com-

panies or associations which are organized for profit, and have a capital stock represented by shares. Such joint stock companies, while differing somewhat from corporations, have many of their attributes and enjoy many of their privileges. To these are added insurance companies, and they, as corporations, joint stock companies or associations, must be such as are now or hereafter organized under the laws of the United States or of any state or territory of the United States, or under the acts of Congress applicable to Alaska and the District of Columbia. Each and all of these, the statute declares, shall be subject to pay annually a special excise tax with respect to the carrying on and doing business by such corporation, joint stock company or association, or insurance company. The tax is to be equivalent to one per cent. of the entire net income over and above $5,000 received by such corporation or company *from all sources* during the year, excluding, however, amounts received by them as dividends upon stock of other corporations, joint stock companies or associations, or insurance companies, subject to the tax imposed by the statute. Similar companies organized under the laws of any foreign country and engaged in business in any state or territory of the United States, or in Alaska or the District of Columbia, are required to pay the tax upon the net income over and above $5,000 received by them from business transacted and capital invested within the United States, the territories, Alaska and the District of Columbia, during each year, with the like exclusion as to amounts received by them as dividends upon stock of other corporations, joint stock companies or associations, or insurance companies, subject to the tax imposed.

While the mere declaration contained in a statute that it shall be regarded as a tax of a particular character does not make it such if it is apparent that it cannot be so designated consistently with the meaning and effect of the act, nevertheless the declaration of the lawmaking power is entitled to much weight, and in this statute the intention is expressly declared to impose a special excise tax with respect to the carrying on or doing business by such corporation, joint stock company or association, or insurance company. It is therefore apparent, giving all the words of the statute effect, that the tax is imposed not upon the franchises of the corporation irrespective of their use in business, nor upon the property of the corporation, but upon the doing of corporate or insurance business and with respect to the carrying on thereof, in a sum equivalent to one per centum upon the entire net income over and above $5,000 received from all sources during the year; that is, when imposed in this manner it is a tax upon the doing of business with the advantages which inhere in the peculiarities of corporate or joint stock organization of the character described. As the latter organizations share many benefits of corporate organization it may be described generally as a tax upon the doing of business in a corporate capacity. In the case of the insurance companies the tax is imposed upon the transaction of such business by companies organized under the laws of the United States or any state or territory, as heretofore stated.

This tax, it is expressly stated, is to be equivalent to one per centum of the entire net income over and above $5,000 received from *all sources* during the year—this is the measure of the tax explicitly adopted by the statute. The income is not limited to such as is received from property used in the business, strictly speaking, but is expressly declared to be upon the entire net income above $5,000 from all sources, excluding the amounts received as dividends on stock in other corporations, joint stock companies or associations, or insurance companies, also subject to the tax. In other words, the tax is imposed upon the doing of business of the character described, and the measure of the tax is to be the income, with the deduction stated, received not only from property used in business, but from every source. This view of the measure of the tax is strengthened when we note that as to organizations under the laws of foreign countries the amount of net income over and above $5,000 includes that received from business transacted and capital invested in the United States, the territories, Alaska and the District of Columbia.

It is further strengthened when the subsequent sections are considered as to deductions in ascertaining net income and requiring returns from those subject to the act. Under the second paragraph the net income is to be ascertained by certain deductions from the gross amount of income received within the year "from all sources"; and the return to be made to the collector of internal revenue under the third section is required to show the gross amount of the income received during the year "from all sources." The evident purpose is to secure a return of the entire income, with certain allowances and deductions which do not suggest a restriction to income derived from property actively engaged in the business. This interpretation of the act, as resting upon the doing of business, is sustained by the reasoning in Spreckels Sugar Refining Co. *vs.* McClain, 192 U. S. 397, in which a special tax measured by the gross receipts of the business of refining oil and sugar was sustained as an excise in respect to the carrying on or doing of such business.

Having thus interpreted the statute in conformity, as we believe, with the intention of Congress in passing it, we proceed to consider whether, as thus construed, the statute is constitutional.

It is contended that it is not, certainly so far as the tax is measured by the income of bonds non-taxable under Federal statutes, and municipal and State bonds beyond the Federal power of taxation. And so of real and personal estates, because as to such estates the tax is direct, and required to be apportioned according to population among the States. It is insisted that such must be the holding unless this court is prepared to reverse the income tax cases decided under the act of 1894. (Pollock *vs.* Farmers' Loan & Trust Company, 157 U. S. 429; s. c., 158 U. S. 601.)

The applicable provisions of the Constitution of the United States in this connection are found in article one, section eight, clause one, and in article one, section two, clause three, and article one, section nine, clause four. They are respectively:

"The Congress shall have power to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts and excises shall be uniform throughout the United States."

"Representatives and direct taxes shall be apportioned among the several States which may be included within this Union, according to their respective numbers."

"No capitation or other direct tax shall be laid unless in proportion to the census or enumeration hereinbefore directed to be taken."

It was under the latter requirement as to apportionment of direct taxes according to population that this court in the Pollock case held the statute of 1894 to be unconstitutional. Upon the rehearing of the case Mr. Chief Justice Fuller, who spoke for the court, summarizing the effect of the decision, said:

"We have considered the act only in respect of the tax on income derived from real estate, and from invested personal property, and have not commented on so much of it as bears on gains or profits from business, privileges, or employments, in view of the instances in which taxation on business, privileges, or employments, has assumed the guise of an excise tax and been sustained as such." (158 U. S. 635.)

And as to the excise taxes, the Chief Justice said:

"We do not mean to say that an act laying by apportionment a direct tax on all real estate or personal property, or the income thereof, might not also lay excise taxes on business, privileges, employments and vocations." (p. 637.)

The Pollock case was before this court in Knowlton *vs.* Moore, 178 U. S. 41. In that case this court sustained an excise tax upon the transmission of property by inheritance. It was contended there, as here, that the case was ruled by the Pollock case, and of that case this court, speaking by the present Chief Justice, said:

"The issue presented in the Pollock case was whether an income tax was direct within the meaning of the Constitution. The contentions which the case involved were thus presented. On the one hand, it was argued that only capitation taxes and taxes on land as such were direct, within the meaning of the Constitution, considered as a matter of first impression, and that previous adjudications had construed the Constitution as having that import. On the other hand, it was asserted that, in principle, direct taxes, in the constitutional sense, embraced not only taxes on land and capitation taxes, but all burdens laid on real or personal property because of its ownership, which were equivalent to a direct tax on such property, and it was affirmed that the previous adjudications of this court had settled nothing to the contrary.

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"Undoubtedly, in the course of the opinion in the Pollock case it was said that if a tax was direct within the constitutional sense the mere

erroneous qualifictaion of it as an excise or duty would not take it out of the constitutional requirement as to apportionment. But this language related to the subject-matter under consideration, and was but a statement that a tax which was in itself direct, *because imposed upon property solely because of its ownership,* could not be changed by affixing to it the qualifications of excise or duty. Here we are asked to decide that a tax is a direct tax on property which has at all times been considered as the antithesis of such a tax; that is, that it has ever been treated as a duty or excise, because of the particular occasion which gives rise to its levy.

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"Considering that the constitutional rule of apportionment had its origin in the purpose to prevent taxes on persons *solely because of their general ownership of property* from being levied by any other rule than that of apportionment, two things were decided by the court: First, that no sound distinction existed between a tax levied on a person solely because of his general ownership of real property, and the same tax imposed solely because of his general ownership of personal property. Secondly, that the tax on the income derived from such property, real or personal, was the legal equivalent of a direct tax on the property from which said income was derived, and hence must be apportioned. These conclusions, however, lend no support to the contention that it was decided that duties, imposts and excises, which are not the essential equivalents of a tax on property generally, real or personal, solely because of its ownership, must be converted into direct taxes, because it is conceived that it would be demonstrated by a close analysis that they could not be shifted from the person upon whom they first fall."

The same view was taken of the Pollock case in the subsequent case of Spreckels Sugar Refining Co. *vs.* McClain, 192 U. S. 397.

The act now under consideration does not impose direct taxation upon property solely because of its ownership, but the tax is within the class which Congress is authorized to lay and collect under article one, section eight, clause one of the Constitution, and described generally as taxes, duties, imposts and excises, upon which the limitation is that they shall be uniform throughout the United States.

Within the category of indirect taxation, as we shall have further occasion to show, is embraced a tax upon business done in a corporate capacity, which is the subject-matter of the tax imposed in the act under consideration. The Pollock case construed the tax there levied as direct, because it was imposed upon property simply because of its ownership. In the present case the tax is not payable unless there be a carrying on or doing of business in the designated capacity, and this is made the occasion for the tax, measured by the standard prescribed. The difference between the acts is not merely nominal, but rests upon substantial differences between the mere ownership of property and the actual doing of business in a certain way.

It is unnecessary to enter upon an extended consideration of the technical meaning of the term "excise." It has been the subject-matter of

considerable discussion—the terms duties, imposts and excises are generally treated as embracing the indirect forms of taxation contemplated by the Constitution. As Mr. Chief Justice Fuller said in the Pollock case, *supra:*

"Although there have been from time to time intimations that there might be some tax which was not a direct tax nor included under the words 'duties, imposts and excises,' such a tax for more than one hundred years of national existence has as yet remained undiscovered, notwithstanding the stress of particular circumstances has invited thorough investigation into sources of revenue."

And in the same connection the Chief Justice, delivering the opinion of the court in Thomas *vs.* United States, 192 U. S. 363, in speaking of the words duties, imposts and excises, said:

"We think that they were used comprehensively to cover customs and excise duties imposed on importation, consumption, manufacture and sale of certain commodities, privileges, particular business transactions, vocations, occupations and the like."

Duties and imposts are terms commonly applied to levies made by governments on the importation or exportation of commodities. Excises are "taxes laid upon the manufacture, sale or consumption of commodities within the country, upon license to pursue certain occupations and upon corporate privileges." (Cooley Cons. Lim. 7th ed. 680.)

The tax under consideration, as we have construed the statute, may be described as an excise upon the particular privilege of doing business in a corporate capacity, *i. e.,* with the advantages which arise from corporate or quasi-corporate organization; or, when applied to insurance companies, for doing the business of such companies. As was said in the Thomas case, 192 U. S. *supra,* the requirement to pay such taxes involves the exercise of privileges, and the element of absolute and unavoidable demand is lacking. If business is not done in the manner described in the statute, no tax is payable.

If we are correct in holding that this is an excise tax, there is nothing in the Constitution requiring such taxes to be apportioned according to population. (Pacific Ins. Co. *vs.* Soule, 7 Wall. 433; Springer *vs.* United States, 102 U. S. 586; Spreckels Sugar Refining Co., 192 U. S. 397.)

It is next contended that the attempted taxation is void because it levies a tax upon the exclusive right of a state to grant corporate franchises, because it taxes franchises which are the creation of the state in its sovereign right and authority. This proposition is rested upon the implied limitation upon the powers of national and state governments to take action which encroaches upon or cripples the exercise of the exclusive power of sovereignty in the other. It has been held in a number of cases that the state cannot tax franchises created by the United States or the agencies or corporations which are created for the purpose of carrying out governmental functions of the United States. (McCulloch *vs.* Mary-

land, 4 Wheat. 316; Osborn *vs.* Bank, 9 Wheat. 738; Railroad Co. *vs.* Peniston, 18 Wall. 5; California *vs.* Central Pac. R. R. Co., 127 U. S. 1.)

An examination of these cases will show that in each case where the tax was held invalid the decision rested upon the proposition that the corporation was created to carry into effect powers conferred upon the Federal Government in its sovereign capacity, and the attempted taxation was an interference with the effectual exercise of such powers.

In Osborn *vs.* The Bank, *supra,* a leading case upon the subject, whilst it was held that the bank of the United States was not a private corporation, but a public one, created for national purposes, and therefore beyond the taxing power of the state, Chief Justice Marshall, in delivering the opinion of the court, conceded that if the corporation had been originated for the management of an individual concern, with private trade and profit for its great end and principal object, it might be taxed by the state, Said the Chief Justice:

"If these premises [that the corporation was one of private character] were true, the conclusion drawn from them would be inevitable. This mere private corporation, engaged in its own business, with its own views, would certainly be subject to the taxing power of the state, as any individual would be; and the casual circumstance of its being employed by the government in the transaction of its fiscal affairs would no more exempt its private business from the operation of that power than it would exempt the private business of any individual employed in the same manner."

The inquiry in this connection is: How far do the implied limitations upon the taxing power of the United States over objects which would otherwise be legitimate subjects of federal taxation withdraw them from the reach of the federal government in raising revenue because they are pursued under franchises which are the creation of the states?

In approaching this subject we must remember that enactments levying taxes, as other laws of the federal government when acting within constitutional authority, are the supreme law of the land. The Constitution contains only two limitations on the right of Congress to levy excise taxes; they must be levied for the public welfare and are required to be uniform throughout the United States. As Mr. Chief Justice Chase said, speaking for the court in License Tax Cases, 5 Wall. 462, 471: "Congress cannot tax exports, and it must impose direct taxes by the rule of apportionment and indirect taxes by the rate of uniformity. Thus limited and thus only, it reaches every subject and may be exercised at discretion." The limitations to which the Chief Justice refers were the only ones imposed in the Constitution upon the taxing power.

In McCray *vs.* United States, 195 U. S. 27, this court sustained a Federal tax on oleomargarine, artificially colored, and held that while the Fifth and Tenth Amendments qualify, so far as applicable, all the provisions of the Constitution, nothing in those amendments operates to take away the power to tax conferred by the Constitution on the Congress. In

that case it was contended that the subject taxed was within the exclusive domain of the States, and that the real purpose of Congress was not to raise revenue, but to tax out of existence a substance not harmful of itself and one which might be lawfully manufactured and sold; but, the only constitutional limitation which this court conceded, in addition to the requirement of uniformity, and that for the sake of argument only so far as concerned the case then under consideration, was that Congress is restrained from arbitrary impositions or from exceeding its powers in seeking to effect unwarranted ends. The limitation of uniformity was deemed sufficient by those who framed and adopted the Constitution. The courts may not add others. (Patton *vs.* Brady, 184 U. S. 608, 622. And see United States *vs.* Singer, 15 Wall. 111, 121; Nicol *vs.* Ames, 173 U. S. 509, 515.)

We must therefore enter upon the inquiry as to implied limitations upon the exercise of the federal authority to tax because of the sovereignty of the states over matters within their exclusive jurisdiction, having in view the nature and extent of the power specifically conferred upon Congress by the Constitution of the United States. We must remember, too, that the revenues of the United States must be obtained in the same territory, from the same people, and excise taxes must be collected from the same activities, as are also reached by the states in order to support their local governments.

While the tax in this case, as we have construed the statute, is imposed upon the exercise of the privilege of doing business in a corporate capacity, as such business is done under authority of state franchises, it becomes necessary to consider in this connection the right of the federal government to tax the activities of private corporations which arise from the exercise of franchises granted by the state in creating and conferring powers upon such corporations. We think it is the result of the cases heretofore decided in this court that such business activities, though exercised because of state-created franchises, are not beyond the taxing power of the United States. Taxes upon rights exercised under grants of state franchises were sustained by this court in Railroad Company *vs.* Collector, 100 U. S. 595; United States *vs.* Erie R. R. Co., 106 U. S. 327; Spreckels Sugar Refining Co. *vs.* McClain, 192 U. S. 397.

It is true that in those cases the question does not seem to have been directly made, but, in sustaining such taxation, the right of the federal government to reach such agencies was necessarily involved. The question was raised and decided in the case of Veazie Bank *vs.* Fenno, 8 Wall. 533. In that well-known case a tax upon the notes of a state bank issued for circulation was sustained. Mr. Chief Justice Chase, in the course of the opinion, said:

"Is it, then, a tax on a franchise granted by a state, which Congress, upon any principle exempting the reserved powers of the states from impairment by taxation, must be held to have no authority to lay and collect?

"We do not say that there may not be such a tax. It may be admitted that the reserved rights of the states, such as the right to pass laws, to give effect to laws through executive action, to administer justice through the courts, and to employ all necessary agencies for legitimate purposes of state government, are not proper subjects for the taxing power of Congress. But it cannot be admitted that franchises granted by a state are necessarily exempt from taxation; for franchises are property, often very valuable and productive property; and when not conferred for the purpose of giving effect to some reserved power of a state seem to be as properly objects of taxation as any other property.

"But in the case before us the object of taxation is not the franchise of the bank, but property created or contracts made and issued under the franchise, or power to issue bank bills. A railroad company, in the exercise of its corporate franchises, issues freight receipts, bills of lading, and passenger tickets; and it cannot be doubted that the organization of railroads is quite as important to the state as the organization of banks. But it will hardly be questioned that these contracts of the company are objects of taxation within the powers of Congress, and not exempted by any relation to the state which granted the charter of the railroad. And it seems difficult to distinguish the taxation of notes issued for circulation from the taxation of these railroad contracts. Both descriptions of contracts are means of profit to the corporations which issue them; and both, as we think, may properly be made contributory to the public revenue." (pp. 547, 548.)

It is true that the decision in the Veazie Bank case was also placed, in a measure, upon the authority of the United States to control the circulating medium of the country, but the force of the reasoning, which we have quoted, has not been denied or departed from.

In Thomas *vs.* United States, 192 U. S., *supra,* a federal tax on the transfer of corporate shares in state corporations was upheld as a tax upon business transacted in the exercise of privileges afforded by the state laws in respect to corporations.

In Nicol *vs.* Ames, 173 U. S. 509, a federal tax was sustained upon the enjoyment of privileges afforded by a board of trade incorporated by the State of Illinois.

When the Constitution was framed the right to lay excise taxes was broadly conferred upon the Congress. At that time very few corporations existed. If the mere fact of state incorporation, extending now to nearly all branches of trade and industry, could withdraw the legitimate objects of federal taxation from the exercise of the power conferred, the result would be to exclude the national government from many objects upon which indirect taxes could be constitutionally imposed. Let it be supposed that a group of individuals, as partners, were carrying on a business upon which Congress concluded to lay an excise tax. If it be true that the forming of a state corporation would defeat this purpose, by taking the necessary steps required by the state law to create a corporation and carrying on the business under rights granted by a state

statute, the federal tax would become invalid and that source of national revenue be destroyed, except as to the business in the hands of individuals or partnerships. It cannot be supposed that it was intended that it should be within the power of individuals acting under state authority to thus impair and limit the exertion of authority which may be essential to national existence.

In this connection South Carolina *vs.* United States, 199 U. S. 437, is important. In that case it was held that the agents of the state government, carrying on the business of selling liquor under state authority, were liable to pay the internal revenue tax imposed by the federal government. In the opinion previous cases in this court were reviewed, and the rule to be deduced therefrom stated to be that the exemption of state agencies and instrumentalities from national taxation was limited to those of a strictly governmental character, and did not extend to those used by the state in carrying on business of a private character. (199 U. S. 461.)

The cases unite in exempting from federal taxation the means and instrumentalities employed in carrying on the governmental operations of the state. The exercise of such rights as the establishment of a judiciary, the employment of officers to administer and execute the laws and similar governmental functions cannot be taxed by the federal government. (The Collector *vs.* Day, 11 Wall. 113; United States *vs.* R. R. Co., 17 Wall. 322; Ambrosini *vs.* United States, 187 U. S. 1.)

But this limitation has never been extended to the exclusion of the activities of a merely private business from the federal taxing power, although the power to exercise them is derived from an act of incorporation by one of the states. We, therefore, reach the conclusion that the mere fact that the business taxed is done in pursuance of authority granted by a state in the creation of private corporations does not exempt it from the exercise of federal authority to levy excise taxes upon such privileges.

But, it is insisted, this taxation is so unequal and arbitrary in the fact that it taxes a business when carried on by a corporation and exempts a similar business when carried on by a partnership or private individual as to place it beyond the authority conferred upon Congress. As we have seen, the only limitation upon the authority conferred is uniformity in laying the tax, and uniformity does not require the equal application of the tax to all persons or corporations who may come within its operation, but is limited to geographical uniformity throughout the United States. This subject was fully discussed and set at rest in Knowlton *vs.* Moore, 178 U. S. *supra*, and we can add nothing to the discussion contained in that case.

In levying excise taxes the most ample authority has been recognized from the beginning to select some and omit other possible subjects of taxation, to select one calling and omit another, to tax one class of property and to forbear to tax another. For examples of such taxation see cases in the margin, decided in this court, upholding the power.*

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*Hylton *vs.* United States, 3 Dall, 171 (a tax on carriages which the owner kept for private use); Nicol *vs.* Ames, 173 U. S. 509 (a tax upon sales or exchanges of

Many instances might be given where this court has sustained the right of a state to select subjects of taxation, although as to them the Fourteenth Amendment imposes a limitation upon state legislatures, requiring that no person shall be denied the equal protection of the laws. See some of them noted in the margin.*

In Bell's Gap R. R. Co. *vs.* Pennsylvania, 134 U. S. 232, dealing with the Fourteenth Amendment, which in this respect imposes limitations only on state authority, this court said:

" The provision, in the Fourteenth Amendment, that no state shall deny to any person within its jurisdiction the equal protection of the laws, was not intended to prevent a state from adjusting its system of taxation in all proper and reasonable ways. It may, if it chooses, exempt certain

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boards of trade); Knowlton *vs.* Moore, 178 U. S. 41 (a tax on the transmission of property from the dead to the living); Treat *vs.* White, 181 U. S. 264 (a tax on agreements to sell shares of stock, denominated " calls," by stock brokers); Patton *vs.* Brady, 184 U. S. 608 (a tax on tobacco manufactured for consumption, and imposed at a period intermediate the commencement of manufacture and the final consumption of the article); Cornell *vs.* Coyne, 192 U. S. 418 (a tax on " filled cheese " manufactured expressly for export); McCray *vs.* United States, 195 U. S. 27 (a tax on oleomargarine not artifically colored, a higher tax on oleomargarine artificially colored, and no tax on butter artifically colored); Thomas *vs.* United States, 192 U. S. 363 (a tax on sales of shares of stock in corporations); Pacific Insurance Co. *vs.* Soule, 7 Wall, 423 (a tax upon the amounts insured, renewed, or continued by insurance companies upon the gross amounts of premiums received and assessments made by them, and also upon dividends, undistributed sums, and incomes); Veazie Bank *vs.* Fenno, 8 Wall. 533 (a tax of ten per centum on the amount of the notes paid out of any state bank, or state banking association); Scholey *vs.* Rew, 23 Wall. 331 (a tax on devolutions of title to real estate); Spreckels *vs.* Sugar Refining Company, 192 U. S. 397 (a tax on the gross receipts of corporations and companies, in excess of $250,000, engaged in refining sugar or oil); Railroad Co. *vs.* Collector, 100 U. S. 595 (a tax laid in terms upon the amounts paid by certain public service corporations as interest on their funded debt, or as dividends to their stockholders, and also on " all profits, incomes or gains of such company, and all profits of such company carried to the account of any fund, or used for construction." Held to be a tax upon the company's earnings and therefore essentially an excise upon the business of the corporation); Springer *vs.* United States, 102 U. S. 586 (a duty provided by the internal revenue acts to be assessed, collected, and paid upon gains, profits, and incomes, held to be an excise or duty and not a direct tax).

* Beers *vs.* Glynn,, 211 U. S. 477 (a State tax on personalty of non-resident decedents who owned realty in the State); Hatch *vs.* Reardon, 204 U. S. 152 (a State tax on the transfers of stock made within the State); Armour Packing Company *vs.* Lacy, 200 U. S. 226 (a state license tax on meat packing houses. A foreign corporation selling its products in the state, but whose packing establishments are not situated in the state, is not exempt from such license tax); Savannah, Thunderbolt & Isle of Hope Railway *vs.* Savannah, 198 U. S. 392 (a classification which distinguishes between an ordinary street railway and a steam railroad, making an extra charge for local deliveries of freight brought over its road from outside the city, held, not to be such a classification as to make the tax void under the Fourteenth Amendment); Cook *vs.* Marshall County, 196 U. S. 261 (a state tax on cigarette dealers); Magoun *vs.* Illinois Trust & Savings Bank, 170 U. S. 283 (upholding the graded inheritance tax law of Illinois); Bell's Gap Railroad Co. *vs.* Pennsylvania, 134 U. S. 232 (state tax upon the nominal face value of bonds, instead of their actual value, held, a valid part of the state system of taxation).

classes of property from any taxation at all, such as churches, libraries, and the property of charitable institutions. It may impose different specific taxes upon different trades and professions, and may vary the rates of excise upon various products; it may tax real estate and personal property in a different manner; it may tax visible property only, and not tax securities for payment of money; it may allow deductions for indebtedness, or not allow them. All such regulations, and those of like character, so long as they proceed within reasonable limits and general usage, are within the discretion of the state legislature, or of the people of the state in framing their Constitution."

It is insisted in some of the briefs assailing the validity of this tax that these cases have been modified by Southern R. R. Co. *vs.* Greene, 216 U. S. 400. In that case a corporation organized in a state, other than Alabama, came into that state in compliance with its laws, paid the license tax and property tax imposed upon other corporations doing business in the state, and acquired under direct sanction of the laws of the state a large amount of property therein, and, when it was attempted to subject it to a further tax on the ground that it was for the privilege of doing business as a foreign corporation, when the same tax was not imposed upon state corporations doing precisely the same business, in the same way, it was held that the attempted taxation was merely arbitrary classification and void under the Fourteenth Amendment. In that case the foreign corporation was doing business under the sanction of the state laws no less than the local corporation; it had acquired its property under sanction of those laws; it had paid all direct and indirect taxes levied against it, and there was no practical distinction between it and a state corporation doing the same business in the same way.

In the case at bar we have already discussed the limitations which the Constitution imposes upon the right to levy excise taxes, and it could not be said, even if the principles of the Fourteenth Amendment were applicable in the present case, that there is no substantial difference between the carrying on of business by the corporation taxed and the same business when conducted by a private firm or individual. The thing taxed is not the mere dealing in merchandise, in which the actual transactions may be the same, whether conducted by individuals or corporations, but the tax is laid upon the privileges which exist in conducting business with the advantages which inhere in the corporate capacity of those taxed, and which are not enjoyed by private firms or individuals. These advantages are obvious, and have led to the formation of such companies in nearly all branches of trade. The continuity of the business, without interruption by death or dissolution, the transfer of property interests by the disposition of shares of stock, the advantages of business controlled and managed by corporate directors, the general absence of individual liability, these and other things inhere in the advantages of business thus conducted, which do not exist when the same business is conducted by private individuals or partnerships. It is this distinctive privilege which is

the subject of taxation, not the mere buying or selling or handling of goods which may be the same, whether done by corporations or individuals.

It is further contended that some of the corporations, notably insurance companies, have large investments in municipal bonds and other non-taxable securities, and in real estate and personal property not used in the business, that therefore the selection of the measure of the income from all sources is void, because it reaches property which is not the subject of taxation—upon the authority of the Pollock case, *supra*. But this argument confuses the measure of the tax upon the privilege, with direct taxation of the estate or thing taxed. In the Pollock case, as we have seen, the tax was held unconstitutional, because it was in effect a direct tax on the property solely because of its ownership.

Nor does the adoption of this measure of the amount of the tax do violence to the rule laid down in Galveston, Harrisburg & San Antonio Ry. Co. *vs.* Texas, 210 U. S. 217, nor the Western Union Tel. Co. *vs.* Kansas, 216 U. S. 1. In the Galveston case it was held that a tax imposed by the State of Texas, equal to one per cent. upon the gross receipts "from every source, whatever," of lines of railroad lying wholly within the state, was invalid as an attempt to tax gross receipts derived from the carriage of passengers and freight in interstate commerce, which in some instances was much the larger part of the gross receipts taxed. This court held that this act was an attempt to burden commerce among the states, and the fact that it was declared to be "equal to" one per cent. made no difference, as it was merely an effort to reach gross receipts by a tax not even disguised as an occupation tax, and in nowise helped by the words "equal to." In other words, the tax was held void, as its business and manifest intent was to tax interstate commerce as such.

In the Western Union Telegraph cases the state undertook to levy a graded charter fee upon the entire capital stock of one hundred millions of dollars of the Western Union Telegraph Company, a foreign corporation, and engaged in commerce among the states, as a condition of doing local business within the State of Kansas. This court held, looking through forms and reaching the substance of the thing, that the tax thus imposed was in reality a tax upon the right to do interstate commerce within the state and an undertaking to tax property beyond the limits of the state; that whatever the declared purpose, when reasonably interpreted, the necessary operation and effect of the act in question was to burden interstate commerce and to tax property beyond the jurisdiction of the state, and it was therefore invalid.

There is nothing in these cases contrary, as we shall have occasion to see, to the former rulings of this court, which held that where a tax is lawfully imposed upon the exercise of privileges within the taxing power of the state or nation, the measure of such tax may be the income from the property of the corporation, although a part of such income is derived from property in itself non-taxable. The distinction lies between the attempt to tax the property as such and to measure a legitimate tax upon the privileges involved in the use of such property.

In Home Ins. Co. *vs.* New York, 134 U. S. 594, a tax was sustained upon the right or privilege of the Home Insurance Company to be a corporation and to do business within the state in a corporate capacity, the tax being measured by the extent of the dividends of the corporation in the current year upon the capital stock. Although a very large amount, nearly two of three millions of capital stock was invested in bonds of the United States, expressly exempted from taxation by a statute of the United States, the tax was sustained as a mode of measurement of a privilege tax which it was within the lawful authority of the state to impose. Mr. Justice Field, who delivered the opinion of the court, reviewed the previous cases in this court, holding that the state could not tax or burden the operation of the Constitution and of laws enacted by the Congress to carry into execution the powers vested in the General Government. Yielding full assent to those cases, Mr. Justice Field said of the tax then under consideration: "It is not a tax in terms upon the capital stock of the company, nor upon any bonds of the United States composing a part of that stock. The statute designates it a tax upon the 'corporate franchise or business' of the company, and reference is only made to its capital stock and dividends for the purpose of determining the amount of the tax to be exacted each year." In that case, in the course of the opinion, previous cases of this court were cited with approval. (Society for Savings *vs.* Coite, 6 Wall. 594; Provident Institution *vs.* Massachusetts, 6 Wall. 611.)

In the Coite case a privilege tax upon the total amount of deposits in a savings bank was sustained, although $500,000 of the deposits had been invested in securities of the United States, and declared by act of Congress to be exempt from taxation by state authority. In that case the court said: "Nothing can be more certain in legal decision than that the privileges and franchises of a private corporation, and all trades and avocations by which the citizens acquire a livelihood may be taxed by a state for the support of the state government. Authority to that effect resides in the state independently of the federal government, and is wholly unaffected by the fact that the corporation or individual has or has not made investment in federal securities." In Provident Institution *vs.* Massachusetts, *supra,* a like tax was sustained.

It is therefore well settled by the decisions of this court that when the sovereign authority has exercised the right to tax a legitimate subject of taxation as an exercise of a franchise or privilege, it is no objection that the measure of taxation is found in the income produced in part from property which of itself considered is non-taxable. Applying that doctrine to this case, the measure of taxation being the income of the corporation from all sources, as that is but the measure of a privilege tax within the lawful authority of Congress to impose, it is no valid objection that this measure includes, in part at least, property which as such could not be directly taxed. (See in this connection Maine *vs.* Grand Trunk Ry., 142 U. S. 217, as interpreted in Galveston, Harrisburg & San Antonio Ry. Co. *vs.* Texas, 210 U. S. 217, 226.)

It is contended that measurement of the tax by the net income of the corporation or company received by it from all sources is not only unequal but so arbitrary and baseless as to fall outside of the authority of the taxing power. But is this so? Conceding the power of Congress to tax the business activities of private corporations, including, as in this case, the privilege of carrrying on business in a corporate capacity, the tax must be measured by some standard, and none can be chosen which will operate with absolute justice and equality upon all corporations. Some corporations do a large business upon a small amount of capital; others with a small business may have a large capital. A tax upon the amount of business done might operate as unequally as a measure of excise as it is alleged the measure of income from all sources does. Nor can it be justly said that investments have no real relation to the business transacted by a corporation. The possession of large assets is a business advantage of great value; it may give credit which will result in more economical business methods; it may give a standing which shall facilitate purchases; it may enable the corporation to enlarge the field of its activities and in many ways give it business standing and prestige.

It is true that in the Spreckels case, 192 U. S. *supra,* the excise tax, for the privilege of doing business, was based upon the business assets in use by the company, but this was because of the express terms of the statute which thus limited the measure of the excise. The statute now under consideration bears internal evidence that its draftsman had in mind language used in the opinion in the Spreckels case, and the measure of taxation, the income from all sources, was doubtless inserted to prevent the limitation of the measurement of the tax to the income from business assets alone. There is no rule which permits a court to say that the measure of a tax for the privilege of doing business, where income from property is the basis, must be limited to that derived from property which may be strictly said to be actively used in the business. Departures from that rule sustained in this court are not wanting. In United States *vs.* Singer, 15 Wall. 111, an excise tax was sustained upon the liquor business, which was fixed by the payment on an amount not less than 80 per cent. of the total capacity of the distillery. Whether such capacity was used in the business was a matter of indifference, and this court said of such a measure:

"Every one is advised in advance of the amount he will be required to pay if he enters into the business of distilling spirits, and every distiller must know the producing capacity of his distillery. If he fail under these circumstances to produce the amount for which by the law he will in any event be taxed if he undertakes to distill at all, he is not entitled to much consideration."

In Society for Savings *vs.* Coite, 6 Wall. *supra,* and Provident Institution *vs.* Massachusetts, 6 Wall. *supra,* as we have seen, the amount of excise was measured by the amount of bank deposits. It made no difference that the deposits were not used actively in the business.

In Hamilton Company *vs.* Massachusetts, 6 Wall. 632, the tax was measured by the excess of the market value of the corporation's capital stock above the value of its real estate and machinery, and in this connection see Home Ins. Co. *vs.* New York, 134 U. S. *supra,* where the excise was computed upon the entire capital stock measured by the extent of the dividends thereon.

We must not forget that the right to select the measure and objects of taxation devolves upon the Congress and not upon the courts, and such selections are valid unless constitutional limitations are overstepped. "It is no part of the function of a court to inquire into the reasonableness of the excise, either as respects the amount or the property upon which it is imposed." (Patton *vs.* Brady, 184 U. S. 608; McCray *vs.* United States, 195 U. S. 27, 58, and previous cases in this court there cited.)

Nor is that line of cases applicable, such as Brown *vs.* Maryland, 12 Wheat. 419, holding that a tax on the sales of an importer is a tax on the import, and Cook *vs.* Pennsylvania, 97 U. S 566, holding a tax on auctioneer's sales of goods in original packages a tax on imports. In these cases the tax was held invalid, as the state thereby taxed subjects of taxation within the exclusive power of Congress.

What we have said as to the power of Congress to lay this excise tax disposes of the contention that the act is void as lacking in due process of law.

It is urged that this power can be so exercised by Congress as to practically destroy the right of the states to create corporations, and for that reason it ought not to be sustained, and reference is made to the declaration of Chief Justice Marshall in McCulloch *vs.* Maryland that the power to tax involves the power to destroy. This argument has not been infrequently addressed to this court with respect to the exercise of the powers of Congress. Of such contention this court said in Knowlton *vs.* Moore, *supra:*

"This principle is pertinent only when there is no power to tax a particular subject, and has no relation to a case where such right exists. In other words, the power to destroy which may be the consequence of taxation is a reason why the right to tax should be confined to subjects which may be lawfully embraced therein, even although it happens that in some particular instance no great harm may be caused by the exercise of the taxing authority as to a subject which is beyond its scope. But this reasoning has no application to a lawful tax, for if it had, there would be an end of all taxation; that is to say, if a lawful tax can be defeated because the power which is manifested by its imposition may when further exercised be destructive, it would follow that every lawful tax would become unlawful, and therefore no taxation whatever could be levied."

In Veazie Bank *vs.* Fenno, 8 Wall. 533, *supra,* speaking for the court, the Chief Justice said:

"It is insisted, however, that the tax in the case before us is excessive, and so excessive as to indicate a purpose on the part of Congress to destroy the franchise of the bank, and is, therefore, beyond the constitutional power of Congress.

"The first answer to this is that the judicial cannot prescribe to the legislative department of the government limitations upon the exercise of its acknowledged powers. The power to tax may be exercised oppressively upon persons, but the responsibility of the legislature is not to the courts but to the people by whom its members are elected. So if a particular tax bears heavily upon a corporation, or a class of corporations, it cannot, for that reason only, be pronounced contrary to the Constitution."

To the same effect: McCray *vs.* United States, 195 U. S. 27. In the latter case it was said:

". . . no instance is afforded from the foundation of the government where an act, which was within a power conferred, was declared to be repugnant to the Constitution because it appeared to the judicial mind that the particular exertion of constitutional power was either unwise or unjust."

And in the same case this court said, after reviewing the previous cases in this court:

"Since, as pointed out in all the decisions referred to, the taxing power conferred by the Constitution knows no limits except those expressly stated in that instrument, it must follow, if a tax be within the lawful power, the exertion of that power may be not judicially restrained because of the results to arise from its exercise."

The argument, at last comes to this: That because of possible results, a power lawfully exercised may work disastrously, therefore the courts must interfere to prevent its exercise because of the consequences feared. No such authority has ever been invested in any court. The remedy for such wrongs, if such in fact exist, is in the ability of the people to choose their own representatives, and not in the exertion of unwarranted powers by courts of justice.

It is especially objected that certain of the corporations whose stockholders challenge the validity of the tax are so-called real estate companies whose business is principally the holding and management of real estate. These cases are No. 415, Cedar Street Company *vs.* Park Realty Company; No. 431, Percy H. Brundage *vs.* Broadway Realty Company; No. 443, Phillips *vs.* Fifty Associates *et al.;* No. 446, Mitchell *vs.* Clark Iron Company; No. 412, William H. Miner *vs.* Corn Exchange Bank *et al.;* and No. 457, Cook *et al. vs.* Boston Wharf Company.

In No. 412, Miner *vs.* Corn Exchange Bank *et al.*, the bank occupies a building in part and rents a large part to tenants.

Of the realty companies, the Park Realty Company was organized to "work, develop, sell, convey, mortgage or otherwise dispose of real estate; to lease, exchange, hire or otherwise acquire property; to erect, alter or improve buildings; to conduct, operate, manage or lease hotels, apartment houses, etc.; to make and carry out contracts in the manner specified concerning buildings . . . and generally to deal in, sell, lease, exchange or otherwise deal with lands, buildings and other property, real or personal," etc.

At the time the bill was filed the business of the company related to the Hotel Leonori, and the bill averred that it was engaged in no other business except the management and leasing of that hotel.

The Broadway Realty Company was formed for the purpose of owning, holding and managing real estate. It owns an office building and certain securities. The office building is let to tenants, to whom light and heat are furnished and for whom janitor and similar service are performed.

The Fifty Associates are operating under a charter to own real estate with power to build, improve, alter, pull down and rebuild, and to manage, exchange and dispose of the same.

The Clark Iron Company was organized under the laws of Minnesota, owns and leases ore lands for the purpose of carrying on mining operations, and receives a royalty depending upon the quantity of ore mined.

The Boston Wharf Company is operating under a charter authorizing it to acquire lands and flats, with their privileges and appurtenances, and to lease manage and improve its property in whatever manner shall be deemed expedient by it, and to receive dockage and wharfage for vessels laid at its wharves.

What we have said as to the character of the corporation tax as an excise disposes of the contention that it is direct, and therefore requiring apportionment by the Constitution. It remains to consider whether these corporations are engaged in business. "Business" is a very comprehensive term and embraces everything about which a person can be employed. Black's Law Dict. 158, citing People *vs.* Commissioners of Taxes, 23 N. Y. 242, 244. "That which occupies the time, attention and labor of men for the purpose of a livelihood or profit." Bouvier's Law Dictionary, vol. 1, p. 273.

We think it is clear that corporations organized for the purpose of doing business, and actually engaged in such activities as leasing property, collecting rents, managing office buildings, making investments of profits, or leasing ore lands and collecting royalties, managing wharves, dividing profits, and in some cases investing the surplus, are engaged in business within the meaning of this statute, and in the capacity necessary to make such organizations subject to the law.

Of the Motor Taximeter Cab Company case, No. 432, the company owns and leases taxicabs, and collects rents therefrom. We think it is also doing business within the meaning of the statute.

What we have already said disposes of the objections made in certain cases of life insurance and trust companies, and banks, as to income derived from United States, state, municipal or other non-taxable bonds.

We come to the question, is a so-called public service corporation, such as The Coney Island and Brooklyn Railroad Company, in case No. 409, and the Interborough Rapid Transit Company, No. 442, exempted from the operation of this statute? In the case of South Carolina *vs.* United States, 199 U. S. 437, this court held that when a state, acting within its lawful authority, undertook to carry on the liquor business it did not withdraw the agencies of the state carrying on the traffic from the operation

of the internal revenue laws of the United States. If a state may not thus withdraw from the operation of a federal taxing law a subject-matter of such taxation, it is difficult to see how the incorporation of companies whose service, though of a public nature, is, nevertheless, with a view to private profit, can have the effect of denying the federal right to reach such properties and activities for the purposes of revenue.

It is no part of the essential governmental functions of a state to provide means of transportation, supply artificial light, water and the like. These objects are often accomplished through the medium of private corporations, and, though the public may derive a benefit from such operations, the companies carrying on such enterprises are, nevertheless, private companies, whose business is prosecuted for private emolument and advantage. For the purpose of taxation they stand upon the same footing as other private corporations upon which special franchises have been conferred.

The true distinction is between the attempted taxation of those operations of the states essential to the execution of its governmental functions, and which the state can only do itself, and those activities which are of a private character. The former, the United States may not interfere with by taxing the agencies of the state in carrying out its purposes; the latter, although regulated by the state, and exercising delegated authority, such as the right of eminent domain, are not removed from the field of legitimate federal taxation.

Applying this principle, we are of opinion that the so-called public service corporations, represented in the cases at bar, are not exempt from the tax in question. (Railroad Company *vs.* Peniston, 18 Wall. 5, 33.)

It is again objected that incomes under $5,000 are exempted from the tax. It is only necessary, in this connection, to refer to Knowlton *vs.* Moore, 178 U. S. *supra,* in which a tax upon inheritances in excess of $10,000 was sustained. In Magoun *vs.* Illinois Trust & Savings Bank, 170 U. S. 283, 293, a graded inheritance tax was sustained.

As to the objections that certain organizations, labor, argricultral and horticultural, fraternal and benevolent societies, loan and building associations, and those for religious, charitable or educational purposes, are excepted from the operation of the law, we find nothing in them to invalidate the tax. As we have had frequent occasion to say, the decisions of this court from an early date to the present time have emphasized the right of Congress to select the objects of excise taxation, and within this power to tax some and leave others untaxed must be included the right to make exemptions such as are found in this act.

Again, it is urged that Congress exceeded its power in permitting a deduction to be made of interest payments only in case of interest paid by banks and trust companies on deposits, and interest actually paid within the year on its bonded or other indebtedness to an amount of such bonded and other indebtedness not exceeding the paid-up capital stock of the corporation or company. This provision may have been inserted with a view to prevent corporations from issuing a large amount of bonds in excess

of the paid-up capital stock, and thereby distributing profits so as to avoid the tax. In any event, we see no reason why this method of ascertaining the deductions allowed should invalidate the act. Such details are not wholly arbitrary, and were deemed essential to practical operation. Courts cannot substitute their judgment for that of the legislature. In such matters a wide range of discretion is allowed.

The argument that different corporations are so differently circumstanced in different states, and the operation of the law so unequal as to destroy it, is so fully met in the opinion in Knowlton *vs.* Moore, 178 U. S. ***supra,*** that it is only necessary to make reference thereto. For this purpose the law operates uniformly, geographically considered, throughout the United States, and in the same way wherever the subject-matter is found. A liquor tax is not rendered unlawful as a revenue measure because it may yield nothing in those states which have prohibited the liquor traffic. No more is the present law unconstitutional because of inequality of operation owing to different local conditions.

Nor is the special objection tenable, made in some of the cases, that the corporations act as trustees, guardians, etc., under the authority of the laws or courts of the state. Such trustees are not the agents of the state government in a sense which exempts them from taxation because executing the necessary governmental powers of the state. The trustees receive their compensation from the interests served, and not from the public revenues of the state.

It is urged in a number of the cases that in a certain feature of the statute there is a violation of the Fourth Amendment of the Constitution, protecting against unreasonable searches and seizures. This amendment was adopted to protect against abuses in judicial procedure under the guise of law, which invade the privacy of persons in their homes, papers and effects, and applies to criminal prosecutions and suits for penalties and forfeitures under the revenue laws. (Boyd *vs.* United States, 116 U. S. 632.) It does not prevent the issue of search warrants for the seizure of gambling paraphernalia and other illegal matter. (Adams *vs.* New York, 192 N. Y. 585.) It does not prevent the issuing of process to require attendance and testimony of witnesses, the production of books and papers. etc. (Interstate Commerce Commission *vs.* Brimson, 145 U. S. 447; Interstate Commerce Commission *vs.* Baird, 194 U. S. 25.) Certainly the amendment was not intended to prevent the ordinary procedure in use in many, perhaps most, of the states of requiring tax returns to be made, often under oath. The objection in this connection applies, when the substances of the argument is reached, to the sixth section of the act, which provides:

"Sixth. When the assessment shall be made, as provided in this section, the returns, together with any corrections thereof which may have been made by the commissioner, shall be filed in the office of the Commissioner of Internal Revenue and shall constitute public records and be open to inspection as such."

An amendment was made June 17, 1910, which reads as follows:

"For classifying, indexing, exhibiting and properly caring for the returns of all corporations, required by section thirty-eight of an act entitled 'An act to provide revenue, equalize duties, encourage the industries of the United States, and for other purposes,' approved August fifth, nineteen hundred and nine, including the employment in the District of Columbia of such clerical and other personal services and for rent of such quarters as may be necessary, twenty-five thousand dollars: *Provided,* That any and all such returns shall be open to inspection only upon the order of the President under rules and regulations to be prescribed by the Secretary of the Treasury and approved by the President."

The contention is that the above section as orginally framed and as now amended could have no legitimate connection with the collection of the tax, and in substance amounts to no more than an unlawful attempt to exhibit to the private affairs of corporations to public or private inspection, without any substantial connection with or legitimate purpose to be subserved in the collection of the tax under the act now under consideration. But we cannot agree to this contention. The taxation being, as we have held, within the legitimate powers of Congress, it is for that body to determine what means are appropriate and adapted to the purposes of making the law effectual. In this connection the often quoted declaration of Chief Justice Marshall in McCulloch *vs.* Maryland, 4 Wheat. 316, 421, is appropriate: "Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, and which are plainly adapted to that end, and which are not prohibited, but are consistent with the letter and spirit of the Constitution, are constitutional."

Congress may have deemed the public inspection of such returns a means of more properly securing the fullness and accuracy thereof. In many of the states, laws are to be found making tax returns public documents, and open to inspection.*

We cannot say that this feature of the law does violence to the constitutional protection of the Fourth Amendment, and this is equally true of

* In Connecticut, the requirement is that the tax lists of the assessors shall be abstracted and lodged in the town clerk's office "for public inspection." R. S. Conn. § 2310. In New York, notices of the completion of the assessment rolls must be conspicuously posted in three or more public places, and a copy left in a specified place, "where it may be seen and examined by any person until the third Tuesday of August next following." Consol. Laws of N. Y. vol. 5, p. 5859; Laws N. Y. 1909, c. 62, § 36. In Maryland, a record of property assessed is required to be kept, and the valuation thereof with alphabetical list of owners recorded in a book, "which any person may inspect without fee or reward." Pub. Laws Md. vol. 2, p. 1804, § 23. In Pennsylvania, it is provided that from the time of publishing the assessor's returns until the day appointed for finally determining whether the assessor's valuations are too low "any taxable inhabitant of the county shall have the right to examine the said return in the commissioner's office." Peper & Lewis' Dig. Laws Pa. vol. 2, p. 4591. § 357. In New Hampshire, the list of taxes assessed are required to be kept in a book, and also left with the town clerk, and such records "shall be open to the inspection of all persons." Pub. Stat. N. H. 1901, p. 214 § 5.

the Fifth Amendment, protecting persons against compulsory self-incriminating testimony. No question under the latter amendment properly arises in these cases, and when circumstances are presented which invoke the protection of that amendment and raise questions involving rights thereby secured it will be time enough to decide them. And so of the argument that the penalties for the non-payment of the taxes are so high as to violate the Constitution. No case is presented involving that question, and, moreover, the penalties are clearly a separate part of the act, and whether collectible or not may be determined in a case involving an attempt to enforce them. (Wilcox *vs.* Consolidated Gas Co., 212 U. S. 19, 53.)

It has been suggested that there is a lack of power to tax foreign corporations, doing local business in a State, in the manner proposed in this act, and that the tax upon such corporations, being unconstitutional, works such inequality against domestic corporations as to invalidate the law. It is sufficient to say of this that no such case is presented in the record. (Southern Railway Co. *vs.* King, 217 U. S. 525.) This is equally true as to the alleged invalidity of the act as a tax on exports, which is beyond the power of Congress. No such case is presented in those now before the court.

We have noticed such objections as are made to the constitutionality of this law as it is deemed necessary to consider. Finding the statute to be within the constitutional power of the Congress, it follows that the judgments in the several cases must be affirmed.

Affirmed.

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